Rapid Assessment of tourism revenues and value retention in Sri Lanka: cost structures and external revenue outflows in key tourism segments

Table of contents

List of acronyms

ASMET	Association of Small and Medium Enterprises in Tourism
BOI	Board of Investment
COVID	Coronavirus Disease (COVID-19 pandemic)
CPA	Cost Per Advertisement
CRM	Customer Relationship Management
DMC	Destination Management Company
EDB	Export Development Board
ESG	Environmental, Social, and Governance
EU	European Union
FF&E	Furniture, Fixtures & Equipment
FGD	Focus Group Discussion
GAP	Good Agricultural Practices
GDP	Gross Domestic Product
GDS	Global Distribution System
GSTC	Global Sustainable Tourism Council
HR	Human Resources
HVAC	Heating, Ventilation, and Air Conditioning
ICT	Information and Communication Technology
IRD	Inland Revenue Department
IT	Information Technology
ITC	International Trade Centre
NEDA	National Enterprise Development Authority
OTA	Online Travel Agency
OTBLS	Online Tourism Business Licensing System
ROAS	Return on Advertising Spend
ROI	Return on Investment
SDP	Strategic Development Projects
SLAITO	Sri Lanka Association of Inbound Tour Operators
SLITHM	Sri Lanka Institute of Tourism & Hotel Management
SLTDA	Sri Lanka Tourism Development Authority
SME	Small and Medium Enterprise
SNQA	Service National Quality Assurance
TDL	Tourism Development Levy
THASL	The Hotels Association of Sri Lanka
TVET	Technical and Vocational Education and Training
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNWTO	United Nations World Tourism Organization
UPI	Unified Payments Interface (digital payment system, India)

USD	United States Dollar
VAT	Value Added Tax
WHO	World Health Organization
WTTC	World Travel & Tourism Council

Executive Summary

Tourism is a vital driver of Sri Lanka's economy, contributing USD 3.17 billion in receipts in 2024 and ranking as the third-largest source of foreign exchange. As international arrivals recover and diversify, the strategic challenge is no longer limited to increasing visitor numbers, but to strengthening the share of tourism expenditure that is retained within the domestic economy.

This rapid assessment estimated that approximately USD 1 billion in tourism-related expenditures are associated with international supply chains, imported inputs, external intermediation, and informal transactions across key tourism segments, including accommodation, inbound tour operators, and wellness and spa services. These outflows occur through a combination of external channels (offshore bookings, profit repatriation), internal channels (import dependence for goods and services), and invisible channels (informal operations, unreported transactions). Some of these flows—particularly external ones—are embedded in the structure of international tourism and reflect the benefits of international market access and foreign investments. Others, however, represent avoidable inefficiencies or missed opportunities for stronger domestic value capture.

This report therefore focuses on identifying where targeted and proportionate measures can increase local retention without undermining competitiveness or international integration. Several of these interventions were suggested by interviewed stakeholders and assessed against both quantitative evidence and the regulatory framework.

The process for reducing financial leakages is structured as a progressive, stepwise approach covering five key opportunity areas: formalisation, local value chain strengthening, digital payments and licensing, stakeholder sustainability, and marketing and coordination. The proposed approach balances support and enforcement, prioritising the removal of barriers and the creation of accessible, low-cost pathways to formalisation before moving toward stricter compliance measures. The aim is to ensure that businesses—particularly SMEs in rural or high-leakage destinations—are given fair opportunities and practical support to enter the formal system before any penalties are applied.

Key Findings

- When analysing tourism expenditure across different distribution and procurement structures, the largest absolute expenditure flows associated with international intermediation and offshore-retained package components amount to approximately USD 519.6 million. Accommodation-related operating structures account for USD 349.1 million, while wellness & spa services—although smaller in overall turnover—show the highest relative outflow rate at 50.8%+. These patterns primarily reflect the configuration of global value chains, procurement systems, and payment architectures rather than the retained margins or operational efficiency of individual businesses.

- Many leakage drivers are embedded in upstream supply chains, foreign ownership structures, and payment flows. In a certain sense, leakages are more structural rather than an individual responsibility. Addressing them requires systemic measures, such as supplier upgrading and targeted import substitution, rather than placing the burden solely on operators.

- Informality remains a measurable constraint on domestic value capture. Informal operations, unreported transactions, and untaxed flows are conservatively estimated at approximately USD 84.8 million annually. These weaken fair competition and reduce public revenues available for reinvestment in tourism infrastructure, skills, and promotion. Several private-sector stakeholders consider this estimate to be too conservative, noting that the cumulative effective tax burden on compliant accommodation providers—including indirect taxes, levies, and corporate taxation—can approach 30–35% of declared turnover. This creates structural incentives for underreporting or regulatory avoidance in certain market segments.

- In addition to domestic fiscal erosion, stakeholders report instances where bookings and payments are processed offshore or through financial platforms not connected to Sri Lanka's banking system, even when services are physically delivered in the country. In such cases, profits may be retained or settled abroad, generating external outflows alongside lost tax revenues. While robust quantitative evidence remains limited, triangulation based on stakeholder testimonies, observed payment practices, and comparative tax-burden assumptions suggests that undeclared turnover and offshore-retained revenues could be significantly higher than current baseline estimates. Under conservative scenario modelling, the informal accommodation segment alone could account for up to USD 300 million annually in undeclared or externally retained revenues, underscoring both the fiscal and external dimensions of informality.

- Procurement-related leakages represent the largest driver of value loss across the tourism sector, amounting to USD 803.2 million annually. This is equivalent to approximately 30.2% of operating costs in accommodation, 32.6% in internationally intermediated package structure, and 48.7% for wellness & spa businesses. These losses stem from heavy dependence on imported food, beverages, linens, equipment, and branded wellness products, even where partial domestic substitutes exist.

- Reducing leakages will require careful targeting. Not all products offer the same return on investment: while low-margin items such as basic fruits and vegetables may yield limited impact, higher-value goods and services (e.g., specialty foods, packaging, spa consumables, sanitation products, or certified linens) present a stronger case for substitution. Targeted strengthening of local supply chains in these areas could significantly reduce procurement-related leakages over time and retain greater value within the domestic economy.

- Sri Lanka's unique heritage in authentic Ayurveda, with over 600 endemic medicinal plants, remains under-leveraged. Unregulated use of the "Ayurveda" label, especially in the spa segment, dilutes credibility, and marketing is often blended into generic "wellness" positioning, losing a distinct competitive edge.

- Digital payment adoption gaps represent missed opportunities rather than a direct leakage. While mobile and e-payment systems often carry lower transaction costs than credit cards, their uptake in Sri Lanka's tourism economy remains uneven. In particular, rural areas and smaller operators frequently lack the infrastructure or incentives to accept digital payments. This creates barriers for visitors who might otherwise spend more, and it weakens transaction traceability for regulators and tax authorities. Expanding the acceptance of low-cost digital payment systems (e.g., Alipay+, UPI) could therefore increase both visitor expenditures and fiscal capture, while also lowering compliance costs for SMEs.

- Sri Lanka's high leakage levels are compounded by weak interministerial coordination and the underutilisation of tourism market intelligence. Fragmented responsibilities across ministries often lead to overlapping mandates and inconsistent enforcement, while the absence of a central intelligence system limits the country's ability to monitor visitor behaviours, expenditure patterns, and emerging market opportunities. As a result, promotional efforts remain fragmented, with insufficient focus on high-yield segments—such as certified Ayurveda or year-round cultural tourism—that could generate higher per-capita spending and help offset operational leakages in other parts of the value chain. Without improved coordination and data-driven decision-making, Sri Lanka risks continuing to capture only a fraction of the potential domestic value from its growing tourism receipts.

It is important to recognise that not all leakage sources should be seen as structural weaknesses. Profit repatriation by foreign-owned hotels and commissions to international OTAs are part of the normal functioning of today's tourism economy. These actors provide market access, visibility, and capital that Sri Lanka would struggle to mobilise on its own. The challenge is therefore not to eliminate these flows but to ensure they are balanced by policies that maximise local retention—through stronger domestic supply chains, compliance frameworks, and targeted promotion of high-yield segments.

In other words, tourism in the 21st century inherently involves international intermediation, and leakages from these channels are best understood as the "cost of doing business" globally. Sri Lanka's opportunity lies in reducing the *avoidable* losses—such as those stemming from informality, import dependence, or uncoordinated promotion—and strengthening the share of tourism spending that remains in the domestic economy.

Priority Opportunities

These findings show that there are five different, sometimes interdependent, areas of intervention.

1. Boost Formalisation and Enforcement – Streamline licensing, reduce compliance costs, incentivise voluntary registration, and link national marketing channels to tax compliance.

2. Strengthen Local Value Chains – Target high-ROI product categories for local sourcing, supported by SME financing, quality upgrading, buyer-supplier matchmaking and measures to ensure reliable quantity and year-round continuity of supply (notably for agricultural products).

3. Enhance Digital Payments and Licensing Infrastructure – Expand low-cost mobile payment acceptance, link licensing and tax systems, and enforce OTA compliance with licensed-operator listings.

4. Promote Stakeholder Sustainability via Certified Ayurveda – Introduce national certification with clinical validation, integrate sustainability into tourism licensing, and promote gender-inclusive employment pathways.

5. Improve Marketing, Coordination, and Capacity – Build branding around certified Ayurveda, use sentiment analysis to refine campaigns, and align promotion with formalisation objectives.

Strategic Implementation

The proposed Stepwise Approach begins by removing regulatory and cost barriers to formality, facilitating compliance through incentives, partnering for enforcement, expanding local procurement and service quality, and applying clear deterrents to persistent informality. Implementation should be phased to secure early wins in formalisation and procurement substitution while laying the groundwork for longer-term positioning in certified Ayurveda and sustainable tourism.

Impact Outlook

Coordinated execution could recover 15–20 percent of informal leakages within three years to the benefit of government revenues, reduce procurement-related outflows by USD 90–120 million annually, and enhance the sector's competitiveness in high-value, low-leakage segments. Success will require sustained political commitment, private sector engagement, and robust monitoring to ensure transparency and accountability.

1. Introduction

1.1. Context and Rationale

Tourism has become one of the most dynamic and fastest-growing sectors of the global economy. It now rivals the scale of traditional industries such as oil, automobiles, and food in terms of business volume and international trade. In 2024, the global tourism sector's direct contribution to GDP reached an estimated USD 3.1 trillion, accounting for approximately 2.8% of global GDP, according to the World Travel & Tourism Council (WTTC). This represents a significant recovery, nearing the pre-pandemic level of 4%. Additionally, export revenues from international tourism, including passenger transport, surged to a record USD 2.0 trillion, marking an 11% increase in real terms from the previous year and exceeding pre-pandemic levels by 15% (UN tourism, 2025).

In developing countries, tourism is often positioned not just as an economic sector, but as a catalyst for structural transformation—stimulating employment, driving investment, and strengthening linkages across value chains such as agriculture, construction, wellness, and transport. Sri Lanka reflects this potential vividly. As the third-largest source of foreign exchange in the national economy after private remittances and textile and garment exports, accounting for almost $3.2 billion or 3.6 percent of gross domestic product in 2024 (SLTDA). Tourism has helped shape employment patterns, improve livelihoods, and foster entrepreneurship in both urban centres and peripheral regions.

Yet, despite this recognized potential, the full economic benefits of tourism in Sri Lanka are not being captured. A significant share of tourist expenditure is lost through leakages—where revenue flows out of the domestic economy rather than circulating locally. These leakages take multiple forms: from external leakages through offshore bookings and profit repatriation by foreign-owned operators; to internal leakages via dependence on imported food, inputs, and capital equipment; and invisible leakages tied to informality, tax evasion, and weak regulatory enforcement. According to Wiranatha et al (2017), developing countries may lose up to 55% of gross tourism revenues, and in extreme cases, this figure can rise to 90%.

Sri Lanka is no exception. While tourism arrivals have surged past 2 million in 2024, and further growth is projected, the sector's net contribution to national development remains undermined by persistent leakages across key segments. Notably, organized tourism segments — including accommodation, package-based travel services, and wellness providers — operate within a fragmented regulatory environment and remain partially dependent on imported inputs and external suppliers. These structural characteristics influence the distribution of value along the supply chain.

Recognizing this challenge, and building on ongoing recovery strategies, the Sri Lanka Tourism Development Authority (SLTDA) in collaboration with UN Tourism initiated a project titled *"Rapid Assessment of tourism revenues and value retention in Sri Lanka: cost structures and external revenue outflows in key tourism segments".* The goal is to understand how, where, and why tourism earnings are not retained in the local economy—and what can be done to improve value capture across the sector.

This report presents the findings of that assessment. It offers a conceptual framework for understanding economic leakages embedded in tourism value chains, presents a structured assessment of organized tourism segments and package-based business models, and proposes actionable strategies to increase local value retention, improve formalization, and deepen domestic supply chain integration. By addressing leakage systematically, Sri Lanka can unlock greater returns from tourism and position itself more competitively in the global travel economy—while ensuring more inclusive and sustainable benefits for its people.

1.2. Objectives of the Assessment

The main objective of this assessment is to conduct a rapid diagnostic of income flows and economic leakages in Sri Lanka's accommodation, spa/wellness, and travel agent/tour operator sectors, with the aim of identifying actionable strategies to enhance domestic value retention and reduce economic outflows.

The specific objectives are:

1. To map and quantify the main income flows and estimate the extent of external, internal, and invisible economic leakages across key tourism value chain component in Sri Lanka.
2. To assess the effects of existing or potential government measures—such as subsidies, tax policies, import restrictions, and local procurement incentives—on reducing leakages, while considering their impact on employment creation and income distribution.
3. To analyse foreign tourists' perceptions and preferences regarding imported versus locally sourced goods and services, including their willingness to support local communities through their purchasing behaviour.
4. To collect and synthesize the views of businesses and stakeholders across accommodation providers, spa/wellness operators, and destination management companies (DMC), with a focus on structural constraints and opportunities related to local sourcing and supply-chain strengthening.
5. To formulate targeted, evidence-based recommendations aimed at minimizing tourism-related leakages while supporting inclusive, sustainable, and competitive growth in Sri Lanka's tourism economy.

1.3. Scope and Methodology

1.3.1. Scope of the Assessment

This rapid assessment focused on identifying and understanding economic leakages within key components of Sri Lanka's tourism value chain, with particular attention to accommodation services, wellness/spa operations, and organised travel services, including destination management companies. These business models play a central role in structuring tourist expenditure flows and influencing the distribution of value across the tourism economy. The study sought to quantify the main types of leakage (external, internal, and invisible) and to explore concrete opportunities to improve domestic income capture, reduce import dependency, and enhance the competitiveness of local enterprises.

The assessment was designed to provide evidence-based recommendations that address structural weaknesses, inform future policy, and support the Sri Lanka Tourism Development Authority (SLTDA) in implementing reforms that promote inclusive and sustainable tourism development.

1.3.2. Methodology and Phased Approach

The methodology followed a five-phase structure combining literature review, quantitative surveys, fieldwork, stakeholder engagement, and synthesis. This pragmatic and inductive approach was designed to balance analytical depth with feasibility, in alignment with the timeline and field realities of Sri Lanka.

Phase 1 – Inception, Secondary Research & Questionnaire Design

This phase laid the foundation for the assessment by clarifying objectives, coordination mechanisms, and data needs. Key activities included:

- A kick-off meeting with SLTDA and stakeholders to align on expectations, scope, and timelines.
- A review of existing studies on tourism value chains and leakages in Sri Lanka and comparator destinations to ground the analysis in prior work. Comparisons with international benchmarks are indicative. Variations can arise from differences in accounting practices, sector composition, and the high prevalence of informal operations in Sri Lanka.
- Development of a typology of leakages (external, internal, invisible) tailored to the accommodation, spa/wellness, and DMC sectors and their suppliers.
- Design of three targeted supply-side questionnaires covering income flows, cost structures, sourcing patterns, and formal/informal practices.
- Review and augmentation of the existing SLTDA visitor survey, with the addition of demand-side questions on tourist preferences, perceptions, and local spending.

Phase 2 – Stakeholder Mobilization and Pre-Mission Coordination

This preparatory phase focused on engaging relevant actors and finalizing tools for data collection:

- Dissemination of the supply-side surveys through SLTDA’s channels using an online local platform called CrowdSnap.
- Outreach to public and private stakeholders, securing their participation in interviews and focus groups.
- Preparation of qualitative interview and FGD guides, with a focus on local sourcing, pricing barriers, informal practices, and policy constraints.

Phase 3 – Field Mission

The field mission (conducted over 10 days) combined institutional meetings, business visits, supplier assessments, and policy dialogues:

- Meetings with public institutions such as the Central Bank, the Export Development Board (EDB), the department of Customs, The Bureau of Investment, and the department of Inland Revenue to understand constraints related to imports, taxation, licensing, and SME support.
- Visits to accommodation providers to assess procurement practices and on-site operations as well as a feasibility assessment of import substitution, ranking local sourcing opportunities based on quality, scalability, delivery reliability, and cost.
- Interviews with local producers and suppliers (e.g., food, FF&E, packaging, spa inputs) including the identification of systemic constraints and enablers, including fiscal burdens, licensing processes, and buyer-supplier mismatches.
- Mapping of wellness tourism flows, including product sourcing, ownership models, staff structures, and client itineraries.
- Evaluation of tour operator practices, including dependence on platforms, foreign staffing, and client sourcing.

Phase 4 – Analysis and Drafting

Quantitative and qualitative data from the field were analysed to identify leakage ratios, trace value flows, and assess feasibility of local retention strategies:

- Compilation and analysis of survey data, disaggregated by sub-sector and leakage type.
- Review of visitor survey responses to gauge tourist preferences for local vs imported goods and their willingness to pay for local experiences.
- Development of draft recommendations, structured by theme (formalization, local value chains, sustainability, digital integration, coordination).

Phase 5 – Validation and Reporting

The final phase consolidated the work into actionable outputs:

- A full Rapid Assessment Report, including findings, analysis, and policy recommendations.
- A validation process with SLTDA and sector stakeholders to present and refine results.
- Submission of final deliverables: full report, annexed recommendations, stakeholder feedback summary, and references.

1.4. Structure of the Report

The report is structured to move from context to analysis, and from diagnosis to action. It begins by providing an overview of Sri Lanka's tourism economy, highlighting recent trends, sector composition, and the role of SMEs and informal actors. A typology of economic leakages—external, internal, and invisible—is introduced to frame the analysis and ensure consistency across findings.

Building on this framework, the report presents a consolidated view of how leakages manifest across the tourism value chain, before delving into specific assessments of the accommodation, travel/tour operator (DMC), and wellness sectors and their suppliers. Each sectoral deep dive explores the scale, nature, and drivers of leakage.

The final sections focus on solutions. They identify key areas of opportunity to reduce leakages—such as improving formalization, strengthening local supply chains, enhancing digital systems, and supporting sustainability—followed by a sequenced action plan to support implementation. The report concludes with practical recommendations aimed at supporting SLTDA and sector stakeholders in capturing more value from tourism growth.

2. Overview of Sri Lanka’s Tourism Economy

2.1. Sector Composition and Key Actors

Sri Lanka's tourism economy is marked by a diverse composition of stakeholders, encompassing large-scale hotel chains, boutique properties, small and medium-sized enterprises (SMEs), travel agents, tour operators, and wellness centres.

In 2024, the Sri Lanka Tourism Development Authority (SLTDA) registered 4,519 accommodation establishments, up from 4,346 the previous year. The accommodation sector remains dominated by small and medium-sized enterprises (SMEs). Among these, guest houses (1,687), homestays (1,122), and bungalows (1,111) account for more than 70% of all licensed units, while only 169 are classified tourist hotels. All registered businesses collectively offer 55,455 rooms, underscoring the sector’s high fragmentation and community-level footprint. However, these figures represent only the formal segment of the market. According to comparative data from online platforms such as Agoda, there are over 27,282 properties listed across Sri Lanka—nearly six times more than those formally registered. Based on industry interviews and OTA data, it is estimated that over 55,000 rooms operate outside of the SLTDA system, essentially doubling the official accommodation stock. This discrepancy highlights the pervasiveness of informal operators, which remain largely outside the regulatory framework, reducing the effectiveness of quality assurance, fiscal monitoring, and coordinated marketing efforts. Despite this, their presence plays a significant role in accommodating low-budget and independent travellers, particularly in emerging and rural destinations.

In the travel intermediation segment, Destination Management Companies (DMCs) play a critical role in coordinating inbound tourism. As of 2024, 1,060 DMCs were registered with Standards and Quality Assurance Department of SLTDA, with an additional 260 holding provisional licenses. A small number of large operators dominate the market: the top five DMCs collectively handled approximately 500,000 international visitors, indicating a high degree of market concentration at the top tier. Meanwhile, many smaller or inactive DMCs coexist within the broader ecosystem, with varying levels of digital capacity and compliance.

The wellness segment has grown steadily, with Sri Lanka positioning itself as a destination for holistic health and traditional healing. In 2024, 123 spa and wellness establishments were formally registered under SLTDA’s SNQA scheme (Service National Quality Assurance) and 798 spa-hotels are listed on booking.com. The sector is especially important for diversifying the tourism offer and extending visitor length of stay. According to visitor survey data, 26.6% of international tourists engaged in wellness, spa, or Ayurveda-related activities during their stay, reflecting growing global demand for health-conscious and immersive travel experiences. However, the sector remains fragmented, with significant informal activity and a need for standardized clinical validation and licensing.

Overall, the tourism sector features a dynamic mix of formal and informal actors across key segments. While large players in accommodation and DMC services dominate volumes, the sector's backbone remains its highly dispersed, SME-driven structure, with increasing interest in wellness and experiential products.

In addition to accommodation providers, DMCs, and wellness centres, Sri Lanka's tourism ecosystem includes a small but expanding gaming and casino industry, increasingly geared toward attracting international clientele. As of 2024, Sri Lanka had five licensed land-based casinos, primarily located in Colombo, but this segment is poised for significant growth. The most notable development is the upcoming *City of Dreams Sri Lanka*, a $1.2 billion integrated resort set to open in Colombo in 2025, including an 800-room hotel and a 16,725 m² casino floor. This marks the largest single private investment in the country's tourism sector to date. While the sector remains relatively niche, its strategic orientation toward regional markets—especially Indian weekend travellers—positions it as a rising player in the country's visitor economy.

2.2. Recent Trends and Performance

The year 2024 saw a strong rebound in tourism, with 2,053,465 international tourist arrivals—a 38% increase compared to 2023. The monthly trend showed sharp growth during the first quarter, especially in January (+103%), reflecting the return of consumer confidence, improved global travel conditions, and active promotion efforts. December remained the peak travel period, with 248,592 visitors, while May was the lowest-performing month.

The resurgence was largely driven by enhanced regional air connectivity, the introduction of visa-free entry for several key markets and shifting travel patterns within South Asia. Notably, geopolitical tensions between India and the Maldives redirected a portion of Indian outbound tourism toward Sri Lanka. India retained its position as the top source market, accounting for 20.3% of total arrivals, followed by Russia (9.8%), the United Kingdom (8.6%), Germany (6.6%), and China (6.4%).

The average duration of stay in 2024 was 8.42 nights, with the Netherlands showing the highest average (14.47 nights), indicating that long-haul travellers contribute disproportionately to economic retention when compared to shorter visits by regional tourists. Additionally, the composition of arrivals is evolving.

A growing segment of Indian weekend tourists, particularly from South India, now visits Colombo specifically for casino tourism, with travel packages designed around gaming, nightlife, and shopping. A niche that is expected to expand further with the opening of the City of Dreams Sri Lanka, an integrated resort featuring an 800-room hotel and a 16,725 m² casino. While official statistics on gambling-specific visitation are not yet disaggregated, the trend suggests a potential for increased average daily expenditure among high-net-worth or entertainment-driven visitors from the region.

Despite this growth, challenges persist. Hotel occupancy rates remain subdued, due to oversupply in the accommodation sector and relatively high pricing compared to competitors in Southeast Asia. Moreover, the sector has yet to fully recover from the operational disruptions and cost inflation caused by the 2022 economic crisis, and performance is still below pre-pandemic levels in terms of average revenue per room and profitability.

2.3. Contribution to Foreign Exchange, Employment, and Exports

Tourism remained one of Sri Lanka's most important sources of foreign exchange in 2024, generating approximately USD 3.17 billion in receipts. This makes the sector the third-largest contributor to the country's foreign earnings, after remittances and garment exports. According to the Central Bank of Sri Lanka, tourism accounted for nearly 10% of current account inflows, playing a stabilizing role in the balance of payments as the country navigates post-crisis recovery. The average daily expenditure per tourist was estimated at USD 181.15, although this figure is likely higher among casino tourists and wellness travelers who purchase premium experiences.

While official employment data by sector is not disaggregated in the SLTDA report, the broader economic linkages suggest that tourism remains one of Sri Lanka's key foreign currency earners alongside apparel and remittances. Tourism also contributes significantly to employment generation, especially through SMEs and community-based service providers. With less than 10% of tourism employees, female participation in the industry is however very low.

Guesthouses, homestays, small-scale transport operators, and local guides form a vital part of the tourism value chain, generating both direct and indirect employment. While official figures for 2024 disaggregated by subsector are not yet available, prior estimates suggest that the industry supports over 400,000 jobs, with potential for even greater impact if informality is reduced.

Beyond traditional services, tourism also supports exports of goods such as tea, spices, handicrafts, and Ayurvedic wellness products, which are often purchased during visits or marketed through tourism-linked supply chains. However, certain subsectors—such as casinos—highlight the risk of economic leakage if not adequately regulated. For example, Sri Lanka's legal gambling market is estimated to be worth USD 500–600 million annually (6Wresearch, 2022), but the fiscal benefit to the country is limited due to low penalties, weak licensing regimes, and lack of transparency in revenue reporting. For example, current proposed fines under the Gambling Regulatory Bill are as low as Rs 100,000, and there is still limited oversight on capital outflows. Unless strengthened, these gaps could allow significant outflows of potential revenue through repatriated profits, tax evasion, and informal currency exchange, especially in high-cash segments like gaming and luxury services.

2.4. Role of SMEs and Informal Economy

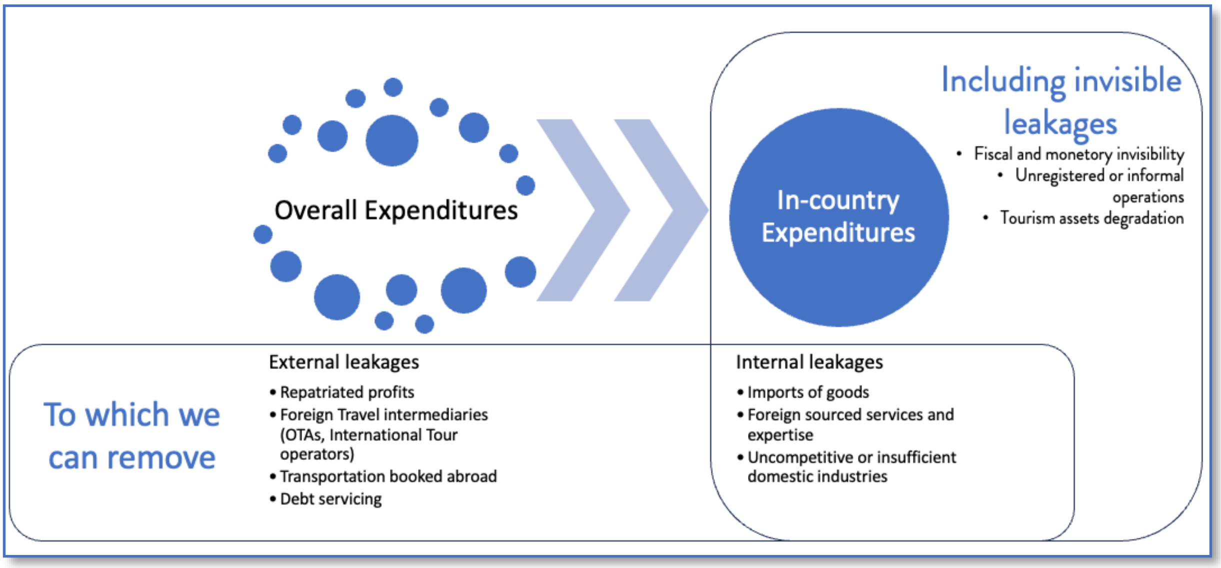
SMEs are the backbone of Sri Lanka's tourism industry, particularly in the accommodation and experiential segments. Guesthouses and homestays represent more than 60% of SLTDA-registered establishments, yet many actors remain informal and unregistered. The informal economy includes unregistered accommodations, transport services, wellness centres, guides, and food vendors, but also includes more sophisticated practices reported by the private sector, such as the sale of tourism packages directly from abroad, the use of offshore payment channels, or card-payment devices not connected to Sri Lanka's banking system. These practices allow revenues to bypass domestic tax and reporting frameworks, contributing to economic leakage and creating unfair competition for compliant operators. Given that the effective tax burden on formal tourism businesses can exceed 30% of turnover—before accounting for profit taxation—such asymmetries weaken incentives to formalise and undermine the sector's capacity to contribute to inclusive development. The prominence of platforms like OTAs has further enabled informal providers to access international markets, sometimes to the detriment of licensed operators. Addressing informality therefore requires a balanced approach combining simplified licensing, credible incentives for compliance, improved payment traceability, and proportionate enforcement mechanisms.

3. Typology and Mapping of Economic Leakages

The concept of economic leakage in tourism refers to the share of tourism revenue that fails to remain in, or be recirculated within, the local or national economy. The phenomenon is particularly pronounced in developing countries where structural constraints, limited domestic capacity, and regulatory gaps prevent full capture of the tourism value chain (UNCTAD, 2010; Mitchell & Ashley, 2010). Understanding and classifying these leakages is critical for designing effective policies to improve tourism's net contribution to sustainable development.

Recent literature highlights the need for a multidimensional classification that reflects not only the nature of the leakages (e.g., direct vs. indirect), but also their location (external vs. internal) and visibility (formal vs. informal or invisible). This framework aligns with findings from multiple countries and is particularly applicable in mixed formal-informal tourism economies such as Sri Lanka's.

Figure 1 – Mapping of economic leakages



Source: Author

3.1. External Leakages

Definition: These refer to tourism expenditures that immediately leave the domestic economy and never enter local circulation. They typically accrue to foreign-owned companies or services used outside the destination.

Common Channels:

- Repatriated profits of foreign-owned tourism businesses (hotels, cruise lines, etc.)

- Fees paid for operating under franchise models or management contracts in the tourism industry
- Foreign travel intermediaries (OTAs, international tour operators)
- Transportation booked abroad (e.g., foreign airlines, cruise ships)
- Debt servicing for capital borrowed internationally to build tourism infrastructure

Example – In Latin America in the 1990s, foreign tour operators received 50–55% of pre-booked package prices before the traveller arrived (UNCTAD, 2022).

Policy Implication – These leakages are partially unavoidable in early development stages but can be reduced over time by supporting local ownership, incentivizing domestic platforms, and regulating repatriation practices.

3.2. Internal Leakages

Definition: These refer to value outflows that occur within the destination country, often due to the import of goods and services required to meet tourist expectations or due to the use of foreign labor and capital whose earnings are locally disbursed but quickly exit the economy.

Common Drivers:

- Import dependence: wine, branded goods, food ingredients, equipment, HVAC, etc.
- Foreign-sourced services and expertise: chefs, trainers, architects
- Uncompetitive or insufficient domestic industries: packaging, chemicals, linens

UNCTAD estimates suggest internal leakages in developing countries range between 40–50% of gross tourism earnings in small economies.

Policy Implication – While often necessary to meet demand in luxury segments, internal leakages can be tackled by strengthening local supply chains, improving production standards, and incentivizing import substitution.

3.3. Invisible Leakages

Definition: These are less visible, harder-to-measure losses or opportunity costs that are not captured in official statistics. They can significantly erode tourism's contribution to national development over time. Importantly, such leakages do not necessarily all leave the country: while they reduce fiscal revenues and weaken the formal economy, part of the value often remains within the domestic informal sector (e.g., unregistered accommodations, guides, or wellness providers).

Categories:

- Fiscal and monetary invisibility: tax evasion, unregistered transactions, informal currency exchanges, offshore transfers

- Environmental degradation: damage to tourism assets like beaches, reefs, or forests reduces long-term destination value
- Unregistered or informal operations: informal guides, DMCs, unlicensed accommodation, or use of foreign workers under tourist visas

Policy Implication: These leakages require broader governance interventions—strengthened tax enforcement, inter-agency coordination, digital traceability, and sustainability frameworks.

In addition to the typology of external, internal, and invisible leakages, it is useful to consider the distinction between direct and indirect leakages, which helps clarify the timing and transmission of tourism income losses. Direct leakages occur before or immediately upon a tourist's arrival, for instance when a large share of spending goes to foreign tour operators, international airlines, or booking platforms, meaning the revenue never enters the domestic economy. In contrast, indirect leakages take place after spending enters the local economy but exits again due to structural weaknesses—such as the need to import food, linens, packaging, or other tourism inputs that cannot be sourced locally. Understanding both the point of leakage and its underlying cause is essential for designing targeted interventions that enhance domestic value retention and long-term economic benefits from tourism.

4. Tourist Behaviour and Consumption Patterns

Tourist behaviour and spending patterns are crucial for understanding how local economies benefit — or fail to benefit — from tourism inflows. As part of the economic leakages study, an exit survey was conducted at Bandaranaike International Airport among international visitors to Sri Lanka (140 in total), during a period of one week, which reveals both encouraging trends and persistent gaps between sustainable intentions and local economic impact.

4.1. *Pre-Arrival Intentions and Information Seeking*

Many tourists arrive in Sri Lanka with a predisposition toward sustainable travel. A large proportion reported actively searching for information about local products, how to support communities, or sustainable initiatives before arrival. This reflects an underlying willingness to engage in more responsible consumption — but also suggests that destination visibility on such themes remains limited.

Table 1 – Search of information about expenditures impacts

Pre-arrival intentions	#	%
How to support local producers or communities	23	11 %
Where your money would go (e.g., locally-owned vs. foreign-owned)	27	13 %
Sustainable tourism initiatives	51	25 %
Locally made products (e.g., food, crafts, spa items)	65	32 %
None of the above	36	18 %

Source – Visitor Exit Survey (2025)

4.2. *Local vs. Imported Products: Awareness and Decision-making*

Despite strong initial intentions, actual purchasing behaviour showed mixed results. When asked whether they check the origin of food, souvenirs, or wellness products:

- 67% said they "always" or "often" check the origin of wellness products,
- 51% for souvenirs, and
- 35% for food items.

Table 2 – Interest in purchasing local products & services

	Asking for origin of food	Asking for origin of souvenirs	Asking for origin of wellness products
Never	5%	4%	7%
Rarely	18%	15%	10%
Sometimes	42%	30%	17%
Often	26%	35%	23%
Always	9%	16%	44%

Source – Visitor Exit Survey (2025)

Yet, some travellers admitted purchasing imported goods (39%), mainly due to perceived quality concerns (10%), absence of local product (23%), or brand familiarity (67%). This points to a gap in consumer trust, product labelling, and accessibility of local alternatives, which can directly contribute to economic leakage.

Table 3 - Reasons for purchasing imported goods

Categories	#
Preference for some international brands	67%
No local product available	23%
Concern with the quality of local products available	10%

Source – Visitor Exit Survey (2025)

Among the 39% of surveyed visitors who admitted purchasing imported goods, spending patterns varied widely: 27% spent less than USD 10, 44% between USD 10 and 50, 11% between USD 50 and 100, and 13% more than USD 100, while 4% could not estimate their expenditure. Based on these self-reported brackets, and extrapolated to Sri Lanka's annual 2 million visitors, such purchases could represent around USD 33 million in annual economic leakage, driven by perceived quality differences, lack of local alternatives, and brand familiarity.

Table 4 -Average expenditures on imported products

Categories	#
I don't know / can't estimate	4%
Less than 10 USD / 3,000 LKR	27%
10–50 USD / 3,000–15,000 LKR	44%
50–100 USD / 15,000–30,000 LKR	11%
More than 100 USD / 30,000+ LKR	13%

Source – Visitor Exit Survey (2025)

4.3. Local vs. foreign-owned businesses: Awareness and Decision-making

Booking patterns indicate a strong reliance on foreign-controlled distribution channels: 62% of respondents booked the majority of their accommodation through international online travel agencies (OTAs) such as Booking.com or Expedia, while only 19% used a Sri Lankan-based travel website or app, and 24% booked directly with the provider by email or phone. A smaller proportion (9%) relied on a travel agent from their home country, and 3% selected other booking methods.

One possible factor explaining tourists' preference for international OTAs is the perception of greater flexibility in terms of free changes and cancellations. While this is widely recognized in global markets, there is currently no evidence that domestic Sri Lankan booking platforms or direct bookings offer comparable flexibility. This aspect would require further investigation.

When asked about ownership awareness, 36% of respondents stated they actively sought locally owned businesses, while 36% admitted they did not pay attention to ownership, and 29% said it was not clear from the booking process whether the business was locally owned. This limited visibility of ownership status, combined with the dominance of international OTAs, suggests a high risk of revenue leakage abroad, particularly in the form of commission payments and profit repatriation.

Table 5 - Preferences and reasons behind the choice of services

Preference when choosing services (tours, guides, wellness, etc.)	Main reasons behind preference						
	#	Quality and professionalism	Trust and safety	Familiar standards	Language and communication	Better marketing or visibility	I want to support local businesses
Locally owned and operated businesses	66 (52%)	64%	64%	41%	36%	35%	33%
I don't pay attention	29 (23%)	55%	48%	38%	21%	21%	10%
Businesses owned by people from my country	10 (8%)	50%	80%	40%	40%	0%	0%
Businesses owned by foreigners	4 (3%)	25%	50%	25%	75%	25%	0%
It depends	3 (2%)	67%	100%	100%	0%	0%	0%

Source – Visitor Exit Survey (2025)

As shown in table 5 above, in contrast to accommodation bookings, a clear majority of visitors (52%) reported feeling more comfortable using locally owned and operated businesses when purchasing services such as tours, guiding, or wellness treatments. Their main motivations were quality and professionalism (64%) and trust and safety (64%), followed by supporting local businesses (33%). This indicates that tourists' preference for local ownership is not only based on solidarity but also on perceptions of professionalism and reliability.

Around 23% stated they did not pay attention to ownership. Even in this group, quality (55%) and trust (48%) remain key factors—suggesting that, while ownership is not decisive for them, performance and reliability still shape choices. Tourists choosing businesses owned by people from their own country are few (8%), but their motivations are very specific. Trust and safety (80%) and language/communication (40%) matter most here. This suggests that a niche segment values familiarity and cultural proximity over supporting local economies.

Only 3% preferred foreign-owned businesses. Their main driver was language and communication (75%), showing that foreign ownership is chosen mainly when it reduces communication barriers. A small group (2%) said “it depends,” but their responses are less consistent and too few to draw strong conclusions. (Table 5) .

Overall, the data reveals a strong positive bias toward locally owned providers, which are perceived as both professional and trustworthy. However, a substantial minority of tourists (nearly one-quarter) do not pay attention to ownership, focusing instead on service quality and safety. This suggests that, while ownership awareness is not universal, a significant share of visitors actively seek and value local enterprises—particularly in the service sector. Improving visibility and marketing of locally owned options, and ensuring quality and professionalism, could help retain more tourism expenditure within Sri Lanka, reducing leakage linked to foreign-owned operators.

4.4. *Dining Habits and Preference for Local Cuisine*

Food plays a central role in tourist spending. As shown in Table 6, a clear majority of visitors demonstrate strong preferences for local food choices. Two-thirds of respondents (66%) reported choosing dishes made with local ingredients “often” or “always,” while 58% said they eat seasonal food with the same frequency. An even higher share, 72%, indicated that they “often” or “always” try traditional recipes, making this the strongest area of local food engagement. By contrast, only 37% of tourists “often” or “always” ask about the origin of ingredients, and 48% reported avoiding imported brands when local options were available. Preferences for locally brewed beverages are also more modest, with 37% choosing them “often” or “always,” and 15% indicating they did not know.

Taken together, these findings suggest that tourists have a genuine appetite for local and traditional foods, but proactive sourcing behaviours are less common. However, tourists often lack clear information (labels, staff explanations) that would enable informed choices.

Table 6 - Dining habits and Preference

	Rarely	Sometimes	Often	Always	I don't know
Choose dishes made with local ingredients	8%	26%	39%	27%	0%
Eat seasonal food	13%	28%	40%	18%	1%
Try traditional recipes	3%	21%	37%	35%	3%
Ask where the ingredients come from	20%	34%	26%	11%	9%
Avoid imported brands when local options are available	14%	38%	27%	21%	0%
Choose locally brewed beers, wines or juices	14%	34%	19%	18%	15%

Source – Visitor Exit Survey (2025)

This suggests missed opportunities for promoting local sourcing within hotels and restaurants, especially in the mid-range and upscale segments.

4.5. *Spending Profiles and Demographics*

The surveyed tourists varied considerably in their spending patterns. When asked to estimate their total in-country expenditure per person for the whole trip in Sri Lanka (in USD or LKR), responses revealed a broad range of budgets.:

- About 30% reported spending less than USD 300 per person, while
- Another 25% spent over USD 1,500, including a segment spending above USD 3,000.

These spending brackets reflect a heterogeneous market, from budget-conscious to high-end visitors. Most travellers (regardless of nationality) said they stayed within budget (63%), indicating that value-for-money remains a core factor. Only 9% of respondents claimed to have underspent.

Demographically, the majority of respondents were aged 25–44, with an even gender balance, and primarily came from Europe and Asia. Most travelled in small groups (1–2 people) and stayed for an average of 7 to 15 days, with the average length of stay across all respondents calculated at 12.05 days.

Based on the Sri Lanka Tourism Development Authority's (SLTDA) visitor survey, total tourist expenditure is estimated at USD 3.17 billion, with spending concentrated in accommodation (32.4%), food and eating out (25%), and transport (17%), followed by shopping (12.2%) and other activities, including wellness and attractions (13.4%) (Table 4). While these figures provide an official benchmark, results from our own survey — although not statistically representative — suggest that the share of expenditure on wellness may be higher than indicated by the SLTDA data, pointing to potential underestimation of this segment in national statistics.

Table 7 - Breakdown and total of visitor expenditures to Sri Lanka

Category	Share of Total Spend (%)	Approx. USD (based on USD 3.17 B total)
Accommodation	31.8%	~ USD 1.007 billion
Food & Eating Out	30.7%	~ USD 972.7 million
Transport (incl. Local guides)	21.9%	~ USD 693.9 million
Shopping	7.7%	~ USD 243.9 million
Others (Wellness, etc.)	7.9%	~ USD 250.3 million
Total	100%	USD 3.17 billion

Source – Visitor Exit Survey (2025)

Conclusion: The analysis of tourist behaviours and consumption patterns in Sri Lanka reveals a nuanced interplay between convenience, quality perceptions, and awareness of local economic impact. Visitors show a strong reliance on international OTAs for accommodation bookings — a channel that can redirect revenue abroad — yet many SMEs deliberately choose these platforms as a cost-effective alternative to investing in their own marketing strategies. Similarly, commissions paid to international tour operators represent another channel of outbound revenue, meaning that while criticisms of OTAs are legitimate from a leakage perspective, they are not always coherent when compared to other foreign commission structures. At the same time, a significant proportion of visitors actively seek locally owned service providers in tours, guiding, and wellness. Spending patterns point to substantial outflows via imported goods and foreign-owned businesses, with shopping and accommodation commissions among the highest-leakage categories. While SLTDA data provides a useful baseline for expenditure distribution, the survey suggests certain segments — notably wellness — may be underrepresented.

5. Sectoral Deep Dives and Overall Assessment of Economic Leakages

As Sri Lanka's tourism sector continues its post-crisis recovery, persistent economic leakages continue to undermine its developmental potential. While tourism receipts and arrivals have rebounded significantly in 2024, the actual retention of value within the domestic economy remains low due to leakages that occur at multiple levels—through formal mechanisms, informal transactions, and structural dependencies. This chapter provides an overarching view of the main patterns and categories of leakage—external, internal, and invisible— in a first section while recognizing that sector-specific details will follow in subsequent sections.

5.1. Overall Picture of Economic Leakages Across Tourism Sub-Sectors

Summary of External, Internal, and Invisible Leakages

External leakages occur when a portion of tourist expenditure never enters Sri Lanka's economy. These include pre-paid international bookings through foreign tour operators, international airlines, and global OTAs, as well as foreign-managed or offshore-based operators marketing Sri Lanka directly in selected source markets via closed digital platforms (e.g. messaging-based sales channels). In these cases, payments are often collected abroad or through non-domestic payment devices, limiting traceability and preventing revenues from entering Sri Lanka's banking and tax systems, beyond local operating expenditures. While platforms like Booking.com, Agoda or Expedia facilitate significant visibility for small accommodation providers and tour operators, they also divert a substantial share of revenues offshore—often 15% to 30% of each booking—with transactions taxed in the host countries of the platforms. In addition, their global reach and limited verification requirements can enable unregistered or partially compliant businesses to access international markets, creating competitive distortions vis-à-vis licensed operators and further constraining domestic value retention.

Certain niche tourism segments characterised by short-stay, high-frequency travel and pre-arranged packages—including entertainment- and gaming-oriented travel such as casino—are often organised through international intermediaries, with accommodation, transport and activity bundles sold and paid for abroad, resulting in limited net inflows to the domestic economy beyond on-the-ground operating costs.

Internal leakages emerge when money that does enter the country exits quickly due to a reliance on imported goods, equipment, and services. In accommodation and wellness services, imports dominate in key operational areas: linens, dry food items, hygiene products, packaging, maintenance equipment, and manufacturing machinery. Limited local production capacity and quality inconsistencies push even well-intentioned businesses toward foreign procurement. Some hotels, such as those owned by Jetwing, have made deliberate efforts to raise local sourcing levels above 80% for perishables, but imports remain significant for durable and capital items.

Invisible leakages represent the most difficult-to-measure but structurally damaging losses. These include informal economic activity, tax evasion, profit underreporting, and regulatory gaps in sectors such as casinos, informal accommodations, freelance guides, and unregistered DMCs. For instance, SLTDA estimates that over 55,000 unregistered rooms operate outside its oversight, based on a comparison of official registrations and listings on online platforms. These establishments represent a parallel informal market, alongside unregistered wellness and spa centres and freelance tour guides. While the precise share of foreign versus locally owned units is difficult to quantify, the implications differ: locally owned informal rooms primarily create fiscal losses through unpaid taxes and fees, while foreign-owned units additionally generate external leakages via profit repatriation. There are also parallel informal activities in wellness centres and tour guiding. Weak enforcement, combined with loopholes in the business visa and licensing systems, allows some foreign operators to engage in tourism-related business without appropriate registration or taxation. Furthermore, informal cash-based exchanges and unmonitored profit repatriation—particularly in sectors like gaming—amplify leakage risks.

Beyond leakages in the strict sense, policy-induced erosion of fiscal capture also affects value retention. Investment incentive schemes, while designed to attract capital, can increase imports dependence and reduce public revenue when poorly targeted or unevenly enforced. Duty-free concessions for capital goods under Board of Investment (BOI) Section 17 approvals encourage imports of construction materials, equipment, and fixtures, bypassing domestic suppliers. Similarly, tax holidays, capital allowances, and exemptions reduce government revenue and create uneven benefits across investors. Legacy beneficiaries under the now-defunct Strategic Development Projects (SDP) Act—such as Shangri-La and ITC—still enjoy exemptions, while new investors are subject to stricter Inland Revenue rules.

As of late 2023, Sri Lanka has halted approvals under the SDP Act and stopped issuing new tax incentives under that framework, though some large projects continue to benefit retroactively. Under the current BOI regime:

- Section 16 approval allows foreign investors to operate under standard laws, with no special concessions beyond profit repatriation.
- Section 17 eligibility—for investments above USD 500,000 (with stronger benefits above USD 3 million)—offers duty-free imports during construction and accelerated capital allowances under the Inland Revenue Act.
- For investments exceeding USD 3 million, firms can deduct capital investment in fixed assets against taxable profits for up to 10 years.
- BOI also provides visas for skilled foreign staff and their dependents, and continues to act as a facilitator with international recognition, even though many investors prefer direct dealings with SLTDA or the Inland Revenue Department if they do not require import concessions.

While these incentives can attract capital, they also shift part of the fiscal and procurement burden away from domestic systems, reinforcing Sri Lanka's reliance on imports and reducing fiscal revenue capture. They therefore represent a form of structural invisible leakage, overlapping with internal leakage dynamics.

From a demand perspective, the visitor survey conducted for this study illustrates how individual consumption choices translate directly into leakage outcomes. The following table aligns these survey findings with the external, internal, and invisible leakage categories, highlighting how seemingly routine decisions—such as booking channels or product preferences—shape the extent to which tourism revenues are retained within Sri Lanka.

Table 8 - Categories & description of leakages in Sri Lanka

Survey Finding	Leakage Category	Description of Leakage
62% of visitors book accommodation via international OTAs (e.g., Booking.com, Expedia)	External	Commission fees (15–30%) paid to foreign-based platforms; revenue taxed abroad before entering Sri Lanka's economy.
9% book through travel agents in their home country	External	Portion of package price retained by overseas agents before arrival.
High SME reliance on OTAs instead of in-house marketing	External	Strategic choice to access foreign markets, but still results in offshore commission payments.
Use of offshore or non-domestic payment channels for tourism services (reported by private sector)	External	Payments collected abroad or via non-domestic card devices bypass Sri Lanka's banking system, limiting tax capture and financial traceability beyond local operating expenses.
Pre-paid short-stay packages organised through international intermediaries (e.g. entertainment- or gaming-oriented travel)	External	Accommodation, transport and activities bundled and paid for abroad, resulting in limited net inflows to Sri Lanka beyond on-the-ground operating costs.
Purchase of imported goods by 39% of visitors (USD 33 million est.)	Internal	Direct import leakage through spending on foreign-manufactured products not produced locally.
Reliance on imported goods and equipment in hotels and spas (e.g., linens, packaging, machinery)	Internal	Operational imports reduce domestic retention of tourist expenditure.
55,000+ unregistered accommodation rooms	Invisible	Revenue not captured in official statistics; possible tax evasion and informal currency handling.
Informal or unlicensed guides, DMCs, and wellness operators	Invisible	Transactions occur outside formal economy; no tax contribution, untracked revenue flows.
Limited awareness of local ownership (33% "not clear" and 40% "don't pay attention")	Invisible (cross-cutting)	Reduces consumers' ability to make informed choices, indirectly reinforcing external and internal leakages by weakening demand for locally owned and locally sourced businesses.
Legacy tax holidays, BOI concessions, and duty-free privileges for investors	Hybrid (Internal & Invisible)	Internal leakage: duty-free imports of construction/capital goods bypass local suppliers. Invisible leakage: fiscal revenue lost from tax exemptions, capital allowances, and uneven enforcement of past SDP/BOI privileges (e.g., large hotel projects still benefiting while new investors face stricter rules).

If we consider only visitor behaviour, the survey findings already reveal multiple pathways for tourism revenue to exit the domestic economy. However, this is only part of the picture. Leakages also occur at the level of tourism operators themselves, who frequently depend on imported goods, equipment, and specialised services to meet market expectations. These operational imports—from linens and packaged food items in hotels, to spa machinery and consumables in wellness centres—can significantly reduce the proportion of visitor spending that is retained locally. The following sections examine these operator-level leakages in detail, building on sector-specific diagnostics for accommodation, DMCs, and wellness services.

Cross-Cutting Issues Across Accommodation, DMCs, and Wellness

Across all subsectors, informality, enforcement gaps, and structural dependence on external actors are common features. The accommodation sector suffers from high levels of unregistered operations and price undercutting by informal providers. Although many inbound operators are formally registered, interviews and administrative data suggest that licensing renewal and periodic compliance requirements are not always systematically maintained, reflecting administrative complexity and uneven enforcement. In wellness, ambiguity in the distinction between Ayurveda and general spa services allows many businesses to operate without aligning with clinical or traditional standards. There is currently no regulation of the spa sector by the Ayurveda Department, despite the widespread use of the term undermining the integrity of certified operators' services. In these three sectors, the gap between official regulations and actual commercial practices creates significant areas of leakage and damages the destination's image.

While international intermediaries such as OTAs and foreign tour operators undeniably contribute to external leakages, they also provide essential visibility and market access to SMEs that would otherwise be excluded from global demand. Importantly, revenues retained by these intermediaries are already subject to taxation in their home countries, meaning that the real issue for Sri Lanka is not their presence per se, but the absence of domestic regulatory and fiscal mechanisms to ensure fair value capture from the transactions they generate locally. In particular, commissions and offshore-retained revenues are typically outside the scope of the Tourism Development Levy (TDL), while enforcement gaps mean that not all international bookings are effectively channelled through licensed DMCs where such levies would normally apply. Strengthening compliance, payment traceability, and intermediary obligations is therefore key to improving domestic value retention without undermining market access.

Aggregate Estimates and Patterns

Preliminary evidence from stakeholder interviews, cross-checks with online platform listings, and sectoral data suggests that leakages remain structurally embedded across the tourism economy. A full estimate combining external, internal, and invisible leakages are presented later in this report (Table 15, p41), after presenting the findings from the sector-specific diagnostics. However, patterns already suggest that unregistered rooms alone may equal the number of formally licensed ones, and that a significant portion of high-end service inputs (e.g., packaging, spa machinery, wellness consumables) are still sourced internationally, despite available local substitutes in some cases.

Main Leakage Drivers and Systemic Weaknesses

Leakage levels in Sri Lanka are not only the result of weak enforcement, but also a reflection of rational business responses to systemic disincentives. High tax burdens, combined with complex and opaque licensing processes, push many operators – predominantly Sri Lankan-owned enterprises – to remain informal or semi-compliant. In such cases, the main consequence is a loss of government income through unpaid taxes and fees, rather than an outflow of profits abroad. Nevertheless, these practices still represent a form of leakage in the sense that they erode fiscal capacity and reduce resources available for reinvestment in the tourism sector.

Businesses often perceive little benefit from formalization, as registration does not guarantee visibility, access to incentives, or enforcement of a level playing field. This creates space for opportunistic behaviour by free riders who benefit from marketing channels and infrastructure without contributing to the tax base or adhering to regulatory standards.

These dynamics are further compounded by coordination gaps across government institutions—including SLTDA, Inland Revenue, Customs, Immigration, and local authorities—which fragment oversight and enforcement. Digital tools for registration, reporting, and licensing remain underutilized or poorly integrated, limiting transparency. In the absence of a whole-of-government approach to formalization, enforcement, and local value chain strengthening, leakage – whether fiscal, operational, or external – will continue to offset the economic gains associated with rising visitor arrivals.

5.2. Accommodation Sector

Sector overview

The accommodation sector is the single largest tourism sub-sector in Sri Lanka, representing 31.3% of total visitor expenditure (SLTDA, 2024), or an estimated USD 1.026 billion in 2024. The sector includes 4,519 SLTDA-registered establishments with 55,455 registered rooms, alongside an estimated 55,000 unregistered rooms, suggesting that the informal segment is nearly as large as the formal market. The presence of this large, unregistered stock contributes directly to invisible leakages through untaxed earnings, unreported profits, and informal currency exchanges.

Large Informal Segment and Fiscal Losses

The informal accommodation segment accounts for approximately 40.5% of total sector capacity. Based on average daily rates and occupancy assumptions, this unregulated capacity generates an estimated USD 415 million annually. Without formal registration, these revenues are excluded from VAT, corporate income tax, labour taxes and tourism levies, leading to an estimated fiscal loss to government of between USD 40–50 million per year (see above section for a discussion of the distinction between fiscal losses from domestic operators and external leakages linked to foreign ownership).

Several private-sector stakeholders consider this estimate to be conservative. According to operators, the cumulative effective tax burden on compliant accommodation providers—including indirect taxes, levies and corporate taxation—can approach 30–35% of declared turnover, while certain source markets and business models are perceived as being more prone to informality, as discussed earlier. In addition to fiscal losses, stakeholders report that some accommodation and tourism services operate within same-nationality business networks, where bookings and payments are collected offshore or processed through card-payment devices and financial platforms not connected to Sri Lanka's banking system. In such cases, profits may be retained or repatriated abroad, generating external leakages on top of domestic fiscal erosion, even when services are physically delivered in Sri Lanka.

Although robust quantitative evidence is currently lacking to validate the scale of these practices, triangulation based on stakeholder testimonies, payment arrangements observed in the market, and comparative tax-burden assumptions suggests that both undeclared turnover and offshore profit retention may be significantly underestimated. Under such scenarios, the informal accommodation segment could account for at least USD 300 million per year in undeclared or offshore-retained revenues, highlighting the combined fiscal and external dimensions of informality.

The scale of informality also has competitive implications: unregistered operators often undercut formal establishments on price, while still benefiting indirectly from public investments in infrastructure, safety, and destination marketing. This undermines incentives for compliance and further entrenches invisible leakages in the sector.

International Benchmark of Average Operational Cost Structure and Leakage Risks

Stakeholder consultations and available international benchmarks indicate the following average operating cost structure for hotels worldwide (percentages of total operating costs):

Table 9 - Operational cost structure and leakage risks for the Accommodation sector

Cost Item	Indicative Range (% of Revenue)[1]	Comments
Salaries (staff + payroll taxes)	20–35%	Largest expense; higher in luxury and full-service hotels.
Utilities (energy, water, waste)	3–8%	Depends on climate, facilities like pools/spas, energy efficiency.
Food & Beverage (COGS + labor)	8–25%	Wide variability depending on importance of restaurants, banquets.
Renting/Loan (rent or debt service)	Variable; usually not operational expense	Debt service often excluded from OPEX; rent may appear in OPEX if leased.
Sales & Marketing (sales, commissions, advertising)	3–8%	Includes OTA commissions, marketing, reservations costs.
Maintenance (property operations & maintenance)	2–6%	Higher for older properties or harsher environments.
Transport (shuttle, guest transfers, logistics)	0.5–2%	Usually low except resorts with extensive shuttle service.
License & Tax (operating taxes, local licenses)	1–4%	Depends on local tax regime; excludes tourist taxes collected on behalf of government.
Other (insurance, franchise fees, management fees, admin)	6–18%	Includes management fees, admin, IT, supplies.

Source: Compiled by Author

When leakage-adjusted, F&B, marketing, and capital servicing emerge as the largest value outflows, with OTA commissions and imported food items as the primary channels. For some SMEs, reliance on OTAs is a rational choice, providing international visibility at a lower up-front cost than sustained digital marketing. However, this dependence also locks them into a recurring external leakage stream.

[1] While international benchmarks provide a useful reference, differences with the Sri Lankan data may be observed. These variations reflect local market conditions, import dependencies, informality, and differences in cost reporting practices, and should therefore be interpreted as indicative rather than directly comparable values.

Estimated leakage in the accommodation sector in Sri Lanka

In the table below, leakage rates have been estimated based on a combination of operator feedback, international value chain benchmarks, and known import/commission dependencies.

Table 10 - – Estimates of leakages for the accommodation sector in Sri Lanka

Cost Category	Share of Total Costs (%)	Leakage Rate (%)	Cost Amount (USD)	Leakage Amount (USD)	Retained Amount (USD)
Salaries & Wages	28%	12%	220 063 142	26 407 577	193 655 565
Utilities	8%	40%	62 875 183	25 150 073	37 725 110
F&B (Food & Beverage)	25%	40%	196 484 948	78 593 979	117 890 969
Rent / Loan servicing	15%	40%	117 890 969	47 156 388	70 734 581
Sales & Marketing	7%	75%	55 015 785	41 261 839	13 753 946
Maintenance & equipment	6%	55%	47 156 388	25 936 013	21 220 374
Transport	2%	50%	15 718 796	7 859 398	7 859 398
License & Tax	3%	10%	23 578 194	2 357 819	21 220 374
Other (insurance, admin, banking fees)	6%	20%	47 156 388	9 431 278	37 725 110
Total operating costs				785 939 792	264 154 364
Net Profit (22% margin)	22%	18%	221 675 326	39 901 559	181 773 767
Total			**1 007 615 118**	**304 055 923**	**703 559 195**

The cost structure of Sri Lanka's accommodation sector is driven by labour-intensive operations combined with a significant reliance on imported goods and services. Salaries and wages form the largest cost category at 28% of total costs, equivalent to USD 220 million, and show a relatively low leakage rate of 12%, largely due to limited employment of expatriates. This category retains the bulk of its value locally and represents one of the sector's strongest channels for domestic benefit creation.

By contrast, F&B procurement—covering perishables, dry goods, and beverages—accounts for 25% of total costs. While perishable foods such as fresh vegetables, meat, and seafood are often sourced locally, imports dominate in higher-end hotels for dry goods, wines, and speciality items. Leakage in this category is compounded by the fact that major local suppliers (e.g., East West Foods) still import up to 75% of their stock, particularly from Australia, Italy, France, and Southeast Asia. In beverages, Lion Brewery supplies most of the beer market and Sri Lanka also produces spirits, so the domestic share of beverage spend is relatively high compared to wine and premium spirits, which are almost entirely imported. As a result, the internal leakage rate for F&B reaches 40%, draining a substantial share of spending from the domestic economy.

Utilities represent 8% of total costs, with a leakage rate of 40%, primarily from imported fuel and equipment for power generation, HVAC systems, and water treatment. Maintenance and equipment (6%) also show high leakage levels due to reliance on imported machinery, air-conditioning units, and fixtures. Even local manufacturers, such as Celcius (linen products), depend on imported raw materials and machinery, further embedding leakage in the supply chain.

Sales and marketing costs amount to 7% of total expenditures, but their leakage rate is disproportionately high (75%) due to commissions to international OTAs (e.g., Booking.com, Expedia), global advertising campaigns, and fees to foreign marketing agencies. This reflects the sector's heavy reliance on foreign visibility channels, which, while essential for market access—especially for SMEs—divert a significant portion of revenue offshore.

Rent and loan servicing (15% of costs) leak at 40%, especially in cases where properties are owned by foreign investors and leased to local operators. Licenses and taxes (3%) have minimal leakage (10%), as most payments are retained domestically, and other costs (6%, including insurance and banking fees) leak at 20%, driven by payments to foreign reinsurers and financial service providers.

In addition to operational leakages, profit repatriation represents a separate and significant outflow. Sri Lanka hosts multiple international hotel chains—including Hilton, Marriott (via Cinnamon under John Keells), InterContinental, Shangri-La, and others. These typically operate under franchise, management, or brand licensing agreements with local ownership or development partners. With an estimated 18% of rooms under foreign ownership, approximately USD 39,9 million in annual profits leaves Sri Lanka each year through repatriation.

Overall, the accommodation sector's combined operational and profit leakages illustrate a structural dependency on imports and foreign-controlled sales channels. In addition, franchise and brand-licensing fees paid by locally owned hotels to international chains represent another form of outflow, although the exact scale of such payments in Sri Lanka is not well documented. Beyond direct hotel operations, these sourcing and marketing choices influence the leakage patterns of other tourism segments, such as inbound tour operators and wellness services, embedding these inefficiencies throughout the tourism value chain.

When combining operational leakages (USD 264,2 million) with profit repatriation, the accommodation sector is estimated to lose approximately USD 304 million annually—equivalent to one-third (30,2%) of total sector revenue—through various external, internal, and profit leakages. Adding the informal accommodation segment's fiscal loss to government (USD 40–50 million per year on ~USD 415 million in unregistered revenue) brings the total estimated leakage to roughly USD 349 million annually.

5.3. Inbound Package Distribution and Destination Management Services

Sector Overview

While some industry players indicate that destination management companies (DMCs) handle between 50% and 75% of organized inbound tourism activity, official SLTDA data indicated that approximately 40% of Sri Lanka's international visitors travel on pre-arranged packages. This suggests that, although organized distribution channels remain a central mechanism for structuring inbound flows, a significant share of visitors continue to travel independently, bypassing traditional package distribution models.

According to the Standards and Quality Assurance division of SLTDA, the sector included 1,060 permanent DMCs, 260 provisional licensees, and around 1,000 unregistered operators in 2024. The market is highly concentrated, with the top five companies managing approximately 500,000 visitors annually.

Destination management companies play a coordinating role within the tourism value chain, channelling payments to accommodation providers, transport operators, activity suppliers, and service providers. As such, the observed leakage profile of this segment largely reflects the procurement structure of upstream suppliers rather than the retained margins of the intermediaries themselves.

Regulatory and fiscal drivers of leakages in the inbound distribution channel

The DMC licensing framework suffers from:

- Low renewal rates: Many licensed inbound tour operators fail to renew their licenses annually but continue operations, leveraging online sales channels and informal partnerships to avoid detection.
- Fragmented enforcement: Weak coordination between SLTDA, Inland Revenue, Customs, Immigration, and Police allows expired or unlicensed operators to remain active for extended periods without sanction.
- Cash and offshore collection: A significant share of B2C revenue is either collected in foreign bank accounts or taken in cash locally, bypassing domestic banking channels. This practice facilitates tax avoidance and reduces VAT/Tourism Development Levy (TDL) compliance.

These weaknesses not only allow leakages but also undermine compliant operators, who face higher costs and tax obligations.

Informal Operations: Foreign Actors, Social Media, and Proxy Businesses

Field interviews indicate a growing presence of foreign individuals selling Sri Lanka packages in their home markets—notably from China and Russia, and increasingly India for casino-focused short breaks—who then operate in Sri Lanka without proper business registration.

Typical patterns include:

- Use of social platforms (WeChat, Telegram, VK, Facebook) to market packages directly to consumers.
- Operating under tourist visas, coordinating itineraries on the ground.
- Partnerships with local proxies who rent their names, bank accounts, or properties to facilitate bookings and accommodation.
- Steering clients to unregistered rooms or allied informal providers, bypassing official levies and quality oversight.

This model combines external leakage (offshore collection), invisible leakage (cash transactions, unreported income), and internal leakage (imported operational inputs).

Evidence of foreign individuals informally selling Sri Lanka tour packages from overseas is difficult to quantify, as the primary marketing channels—such as WeChat for Chinese audiences, Telegram and VK for Russian markets, and WhatsApp or Facebook groups for Indian casino packages—are often private or semi-encrypted. Nonetheless, available open-source material and sector interviews confirm the existence of these practices. Chinese-focused tourism marketing frequently uses WeChat groups and personal profiles to promote packages directly to potential clients, while Russian-language platforms and social media pages advertise pre-arranged Sri Lanka tours from abroad. In many cases, these operators reportedly enter Sri Lanka on tourist visas, partner with local proxies for logistical support, and direct clients toward unregistered accommodation or services, thereby bypassing official levies and oversight. Although exact numbers cannot be established without access to closed digital networks, the qualitative evidence points to a growing, visible trend that exacerbates regulatory gaps and increases economic leakages in the inbound tourism value chain.

Tax Compliance and sales Models in the inbound distribution channels

Leakage dynamics vary according to the structure of the sales and payment model within the inbound tourism distribution channel:

- B2B model (foreign tour operator → Sri Lankan inbound operators/DMC): The foreign operator typically retains 15–25% of package value prior to arrival, reflecting overseas marketing, contracting and distribution functions; The Sri Lankan inbound operator coordinates in-country logistics and suppliers' payments. In this structure, part of the package value is structurally retained offshore before reaching the domestic economy.
- B2C model (Sri Lankan inbound operator/DMC → traveller): This model offers the highest domestic retention potential when sales, payments processing, and tax remittances are conducted through local banking channels; However, leakage increases when operators rely heavily on international online travel agencies (OTAs), global advertising platforms, or foreign payment gateways, which capture commissions and fees abroad.
- Informal offshore B2C model (foreign seller → traveller; local proxy executes services): this configuration presents the highest leakage risk. Payments are collected offshore, services are executed locally through informal or proxy arrangements, and VAT and Tourism Development Levy (TDL) obligations are not fulfilled. Applying the same quantitative approach used for the accommodation analysis suggests that such models may generate leakage rates exceeding 60% under worst-case assumptions, representing significant losses in fiscal revenue and domestic value retention annually.

  Applying conservative assumptions to Sri Lanka's current arrival figures, it is estimated here that 5% of international visitors—or approximately 102,673 travellers—use the informal B2C model, in which foreign sellers' market and collect payments for packages offshore, using local proxies for delivery. With an average package value of USD 1,000, this segment generates roughly USD 102.7 million in gross sales annually. Based on foreign seller margins of 25%, unpaid VAT and Tourism Development Levy on in-country spend, and informal cash leakages, the total value lost to the domestic economy is approximately USD 39.8 million per year, or USD 387 per traveller. This figure already includes the leakages from accommodation and other in-country services purchased as part of the informal B2C package. This equates to a leakage rate of 38.7%, making the informal B2C segment one of the most leakage-prone channels in the inbound tourism value chain. Even under a conservative sensitivity range—assuming lower package values and offshore margins—the annual leakage remains between USD 28.5 million and USD 52.8 million.

  Importantly, the highest leakage risks are associated with offshore collection and informal execution models rather than with the operations of licensed inbound operators functioning within the formal regulatory framework.

International Benchmark of Average Operational Cost Structure and Leakage Exposure in Inbound Package Distribution

Stakeholder consultations and available benchmarks indicate that the operating structure of inbound tourism intermediation – commonly performed by destination management companies (DMCs) and inbound tour operators worldwide – follows a relatively consistent cost distribution pattern (percentages expressed as share of gross revenue):

Table 11 – Operating costs structure of DMCs

Cost Item	Range (% of revenue)[2]	Comments
Purchases (tickets, packages, commissions)	40–70%	Usually the dominant expense for agencies selling packages; covers payments to suppliers.
Salaries	15–30%	Higher for bespoke or boutique agencies, lower for online or automated.
Sales & Marketing (commissions, ads, GDS, OTA fees)	5–15%	Includes GDS fees, OTA commissions, marketing expenses.
Rent / Lease	3–8%	Higher for retail agencies with physical offices.
Utilities	1–3%	Usually low for digital businesses.
Maintenance / IT	2–6%	Tech investments can raise this.
Transport	0–5%	If agency provides transfers or buses.
License & Tax	1–4%	Depends on local regulatory fees.
Other (insurance, banking fees, training)	3–8%	

Source: Compiled by Author

The operating model of inbound package distribution is typically characterized by a high pass-through structure, whereby the majority of revenue is redistributed to suppliers. International benchmarks suggest that purchases of accommodation, transport, attractions, and ancillary services account for approximately 40–70% of gross revenue. These payments reflect the coordinating function of inbound operators within the tourism value chain.

Because supplier payments represent the dominant cost component, the leakage profile of this segment is largely influenced by the import dependency and ownership structures of upstream sectors. For example, accommodation may carry leakage levels of around 40%, while domestic transport may reflect leakage levels of around 20%, depending on fuel imports and vehicles sourcing. As such, a significant share of leakage observed at the intermediation level originates upstream rather than within operator margins.

Salaries typically account for 15–30% of revenue. Leakage exposure in this category is generally low, as employment is predominantly local, though some outflows may occur when expatriates staff or specialised foreign guides are engaged.

Sales and marketing expenses (5 - 15%), tend to be more leakage-prone. These include commissions to Online Travel Agencies (OTAs), global distribution systems (GDS), and advertising on international platforms. While these expenditures are essential for international market access—particularly for small and medium-sized operators—they also result in offshore commission flows.

Rent and lease costs (3–8%) vary with the agency's physical footprint—retail-oriented operators in prime locations incur higher costs, some of which leak abroad if premises are owned by foreign

[2] While international benchmarks provide a useful reference, differences with the Sri Lankan data may be observed. These variations reflect local market conditions, import dependencies, informality, and differences in cost reporting practices, and should therefore be interpreted as indicative rather than directly comparable values.

entities. Utilities (1–3%) are relatively minor but still subject to leakage through imported fuel, electricity generation equipment, and ICT services.

Maintenance and IT investments (2–6%) are increasingly important for agencies investing in booking platforms and CRM systems, but these too often involve imported software licences and foreign IT services, contributing to external leakages. Transport costs (0–5%) apply mainly to agencies providing their own transfers or operating bus fleets, with leakage driven by imported vehicles, fuel, and parts.

Licences and taxes (1–4%) represent a small share of revenue and are mostly retained locally, though some leakages occur when fees are paid to international accreditation bodies. Other costs (3–8%), such as insurance, banking fees, and training, can involve high external components if sourced from international providers.

Overall, the international benchmark reflects a distribution channel in which suppliers purchases dominate both the cost structure and the leakage profile. Consequently, strategies to improve domestic value retention must address not only the operational efficiency of inbound operators, but also the sourcing patterns, formalization, and import dependency of their key suppliers—particularly in accommodation, transport, and activity provision.

Estimated leakage in Sri Lanka's Inbound Package Distribution Channel

The analysis of Sri Lanka's inbound package distribution channel is based on the share of international visitors travelling on package tours and on a sample of 17 licensed inbound tour operators based in Sri Lanka, including the largest in the country.

According to SLTDA data, package tourists represent approximately 40% of Sri Lanka's ~2 million international arrivals—equivalent to 800,000 travellers. With an estimated average package value of USD 1.793 per visitor, this translates to USD 1.47 billion in gross package sales. However, the majority of this value is redistributed directly to suppliers – principally accommodation providers, transport operators, and activities providers.

In Sri Lanka, the inbound business model differs from certain international benchmark. Field interviews indicate that inbound operators generally operate on a commission margin of 10% to 15% of total package value, from which all operating costs must be covered. The remaining 85-90% flows directly to suppliers, often bypassing operator accounts.

This structural distinction is critical. The leakage profile observed in this channel is therefore not primarily a reflection of inbound operator spending decisions, but rather of the procurement structure and import dependency of the upstream supply chain.

This distinction matters. Whereas international benchmarks assume that inbound operators absorb large procurement-related leakages directly, in Sri Lanka much of the leakage originates upstream in the suppliers they contract. As a result, improving value retention depends less on operator cost efficiency and more on strengthening local sourcing, formalisation, and domestic retention in supplier sectors.

Assuming an average 15% commission margin, the effective operating revenue for inbound operators is estimated at USD 220.9 million. This figure is used as the base for the cost structure and leakage analysis, ensuring that accommodation, transport, and wellness revenues are not double counted, as they are addressed in separate sectoral analyses.

Table 12 - Estimates of leakages for the DMCs in Sri Lanka

Cost Category	**Share of Op. costs from Profit margin**	Share of Total Costs (%)	Leakage Rate (%)	Cost Amount (USD)	Leakage Amount (USD)	Retained Amount (USD)
Purchases (tickets packages commissions)		85%	34,7%	1 251 742 989	434 693 972	817 049 017
Salaries & Wages	37%	5,6%	10%	80 273 833	8 027 383	72 246 450
Sales & Marketing	15%	2,3%	75%	32 839 296	24 629 472	8 209 824
Rent / Lease	7%	1,0%	40%	14 595 242	5 838 097	8 757 145
Utilities	3%	0,5%	40%	7 297 621	2 919 048	4 378 573
Maintenance / IT	5%	0,8%	50%	10 946 432	5 473 216	5 473 216
Transport (owned)	8%	1,3%	50%	18 244 053	9 122 027	9 122 027
License & Tax	3%	0,5%	10%	7 297 621	729 762	6 567 859
Other (insurance banking training)	3%	0,5%	50%	7 297 621	3 648 811	3 648 811
Operational Total			—	1 430 534 709	495 081 788	935 452 921
Profit Repatriation (5% foreign ownership)	17%	2,5%	5%	37 439 970	1 871 998	35 567 971
Total		—	—	1 472 638 811	496 953 787	971 020 892

As seen above, the cost structure of Sri Lanka's inbound package distribution channel is dominated by suppliers purchases, which account for 85% of total costs (USD 1.25 billion). These purchases cover accommodation, transport, and activities, and are the principal channel through which value is redistributed across the tourism economy.

The adjusted leakage rate for purchases (34.7%), reflects two layers:

1. Direct external leakages from payments to foreign suppliers (e.g., overseas-owned transport operators, international activity providers).
2. Indirect leakages embedded within domestic suppliers—particularly transport—that themselves rely heavily on imported fuel, vehicles, equipment and inputs.

Importantly, the hotel component—already accounted for in the accommodation sector's leakage analysis—has been removed from this calculation. This adjusted figure isolates only the "other purchases" portion, where leakages are driven mainly by imported fuel and vehicles for transport, reliance on foreign-owned activity providers, and imported equipment or materials for tours and excursions.

Salaries and wages represent 37% of operating costs (USD 80.3 million) and show a relatively low leakage rate of 10%, reflecting the predominantly local workforce employed by licensed inbound operators. This category retains USD 72.2 million domestically and is one of the most effective channels for local value creation in the sector.

Sales and marketing expenses (15% of operating costs, USD 32.8 million) are comparatively leakage-prone, with 75% of value flowing to international OTAs, global advertising platforms, and global distribution systems (GDS). This results in USD 24.6 million leaving the economy and only USD 8,2 million retained locally.

Rent/lease (7% of costs, USD 14.6 million) and utilities (4%, USD 7.3 million) also display notable leakage—40% in both cases—due to foreign property ownership and imported energy inputs. Maintenance/IT (5%, USD 10.9 million) leaks 50%, driven by imported software, hardware, and technical services. Owned transport operations represent just 8%+ of licensed inbound operators' costs (USD 18.2 million) but still leak 50% due to the import of fuel, spare parts, and vehicles.

Overall, operational leakages associated with inbound package distribution channel amount to USD 495.1 million, of which 88% is linked to suppliers purchases. An additional USD 1.87 million is attributed to profit repatriation related to foreign ownership stakes.

In total, approximately USD 497 million is estimated to flow out the domestic economy each year through the inbound package distribution channel. Crucially, the majority of this amount reflects upstream supplier leakages and structural import dependencies rather than retained margins of licensed destination management companies.

When combined with the leakages generated by informal offshore B2C model, estimated at USD 39.8 million annually, the total annual value erosion in the inbound distribution system reaches approximately USD 536.8 million. This substantial outflow underscores the importance of addressing supplier level import dependency, strengthening formalisation, and improving domestic payment and tax compliance mechanisms across the broader tourism value chain.

5.4. Wellness Sector

Sector Overview – Wellness, Spa, and Medical Tourism in Sri Lanka

Sri Lanka's wellness sector is a diverse and rapidly evolving segment of the tourism economy, encompassing stand-alone urban and coastal spas, resort-integrated spas, and medical wellness facilities specialising in Ayurveda, naturopathy, and therapeutic treatments. The country enjoys a strong reputation for Ayurveda, backed by centuries-old traditions and a growing global interest in holistic health tourism.

This heritage is not just a "wellness" product in the narrow sense—it represents a holistic mind–body–spirit philosophy (*Ayurveda Karma*) that integrates food, meditation, yoga, and physical wellbeing. Sri Lanka's unique asset lies in its 600+ endemic medicinal plants—more than India—combined with deep traditional knowledge of how to transform these into effective therapeutic treatments and products. This heritage differentiates Sri Lanka from spa-driven competitors such as Thailand and Bali, while also offering an alternative to India's industrialised Ayurveda sector by focusing on authenticity, biodiversity, and personalised care.

The sector's market potential is supported by high visitor interest: Sri Lanka Tourism Development Authority (SLTDA) data shows wellness participation rates above 25%, while targeted surveys indicate even higher engagement among long-haul leisure travellers. Market value for spa and wellness services, including the sale of wellness products, is estimated at USD 200 million annually.

However, the sector is highly segmented. Certified Ayurvedic facilities typically employ Sri Lankan therapists and source a higher proportion of herbal ingredients locally, but the international luxury spa segment—especially those in resort settings—relies heavily on imported branded products, international marketing platforms, and foreign staff (notably from Indonesia, Thailand, and the Philippines). This dual structure creates distinct leakage profiles within the same sector, with high-end facilities often having the greatest import intensity and wage repatriation.

From a value chain perspective, wellness services are deeply interconnected with other tourism sub-sectors. Resort-based spas depend on the accommodation sector for physical space, infrastructure, and guest flow, embedding part of their leakage within hotel operations. Stand-alone spas rely more on direct marketing to visitors, often via OTAs or partnerships with inbound tour operators, which adds another layer of external commissions. The product sales component—oils, scrubs, herbal teas—offers significant opportunities for local economic integration, but packaging and branding remain heavily import-dependent.

Regulatory oversight of the sector is fragmented, with Ayurvedic facilities (except for spas) supervised by the Ministry of Health and non-Ayurvedic or so-called ayurvedic spas under general business licensing regimes. This creates enforcement gaps, particularly for unregistered operators who target tourists directly through social media or informal networks, contributing to invisible leakages. It also reflects a misalignment between health and tourism policies, which hinders coordinated development.

In short, Sri Lanka's wellness sector is a high-potential but high-leakage industry, where substantial revenue leaves the economy via imported consumables, foreign staff wages, and offshore marketing costs. Addressing these structural weaknesses will require coordinated interventions in skills development, local packaging production, import substitution, and digital marketing capacity for local operators. This is particularly important given that the sector contributes to the country's appeal as a tourist destination throughout the year, as demand for wellness is less seasonal than for seaside leisure tourism. Wellness offerings not only attract a large market, both nationally and internationally, but also help stabilise revenues during the off-season.

International Benchmark of Average Operational Cost Structure and Leakage Risks

Stakeholder consultations and available benchmarks indicate the following average operating cost structure for wellness operators worldwide (percentages of total operating costs):

Table 13 - Operating costs structure of Wellness sector

Cost Item	Share of Total Costs (%)[3]	Comments
Salaries (therapists, reception, management)	28–38	Labour-intensive, with higher end for medical spas. Significant leakage when employing foreign therapists.
COGS (products & consumables retail/backbar)	25–33	Includes oils, creams, scrubs, and herbal products; local production possible but packaging often imported.
Utilities (water, electricity, laundry)	3–5	Higher for hydrotherapy and resort spas.
Rent / Lease	6–10	Urban spas pay higher rent; resort spa rent may be absorbed into hotel accounts.
Sales & Marketing	7–10	Includes OTA commissions, global wellness platform fees, resort marketing allocations.
Maintenance (equipment, linens)	2–4	High leakage due to imported equipment and linens despite some local linen manufacturing.

[3] While international benchmarks provide a useful reference, differences with the Sri Lankan data may be observed. These variations reflect local market conditions, import dependencies, informality, and differences in cost reporting practices, and should therefore be interpreted as indicative rather than directly comparable values.

License & Tax	1–3	Ayurvedic certification or medical licensing adds to cost but mostly retained locally.
Other (insurance, franchise fees, management fees, training)	5–9	High leakage when training, insurance, or franchise fees are paid abroad.

Source: Compiled by Author

The operating cost profile of wellness sector—encompassing stand-alone spas, resort spas, and medical wellness centres—shows a distinctive mix of high labour intensity and strong dependence on imported inputs, particularly in the premium segment. Salaries and wages typically represent 28–38% of revenue.

Products and consumables—oils, creams, scrubs, and herbal preparations—represent 25–33% of revenue. In premium spas, imports are even more dominant, with packaged international brands being offered alongside treatments. This results in a combination of partial local sourcing (for raw or semi-processed inputs) and high leakage through packaging and branding components sourced from abroad.

Sales and marketing (7–10%) is another significant leakage channel, especially where spas rely on foreign OTAs, international resort chains' marketing networks, or wellness-specific booking platforms. Rent, and utilities—together accounting for 9–15%—show mixed leakage levels. Licenses, training, and certification (2–5%) often involve payments to international wellness and spa accreditation bodies, contributing to external leakages. This is especially true for operators seeking global recognition in the high-end market segment, where brand alignment with international standards is a marketing requirement. Other costs—insurance, imported décor, imported uniforms, and music licensing—represent 5–9% of revenue and add incremental leakage.

Estimated leakage in the Wellness sector in Sri Lanka

Based on available evidence (51 interviews), the foreign ownership share of Sri Lanka's spa and wellness segment is estimated at 20–30% of total market revenue. These figures reflect the presence of high-profile international hotel chains and branded spa operators—such as Shangri-La's *CHI, The Spa*, Hilton's *eforea*, Marriott's *Quan Spa*, Anantara Spa, and Aman Resorts—alongside a substantial base of locally owned Ayurvedic and wellness providers, including Siddhalepa, Barberyn, and Spa Ceylon. While foreign-branded spas represent a minority of total outlets, they typically operate within luxury resorts and capture higher per-guest spending, which increases their revenue-weighted share. Publicly available SLTDA data on registered wellness facilities confirms the diversity of the sector but does not disclose ownership structures, making precise measurement difficult.

Overall, the wellness sector exhibits a dual leakage pattern:

1. Direct leakages from the employment of foreign therapists and from imported packaged products.
2. Indirect leakages embedded in the hotel sector for resort spas, and in international marketing platforms that dominate online visibility.

The sector's local value retention potential is significant—particularly through increased training of Sri Lankan therapists, development of local packaging industries, and greater integration of domestic suppliers of spa consumables—but this will require targeted skills programmes, investment in local packaging production, and regulatory measures to encourage local hiring and sourcing.

Table 14 - Estimates of leakages for the Wellness sector in Sri Lanka

Cost Category	Share of Total Costs (%)	Leakage Rate (%)	Cost Amount (USD)	Leakage Amount (USD)	Retained Amount (USD)
Salaries (therapists, reception, management)	29,4%	35%	32 513 481	11 379 718	21 133 762
COGS (products & consumables retail/backbar)	10,3%	60%	11 370 388	6 822 233	4 548 155
Utilities (water, electricity, laundry)	2,1%	40%	2 281 008	912 403	1 368 605
Rent / Lease	5,9%	40%	6 542 424	2 616 970	3 925 454
Sales & Marketing	23,5%	95%	25 946 863	24 633 176	1 313 686
Maintenance (equipment, linens)	17,2%	60%	19 049 432	11 429 659	7 619 773
License & Tax	10,9%	20%	12 044 060	2 408 812	9 635 248
Other (insurance, franchise fees, management fees, training)	0,7%	50%	788 213	394 106	394 106
Total operational costs	100%		110 535 868	60 597 078	49 938 790
Net Profit (20% margin / 24% foreign ownership)	20%	24%	27 633 967	6 632 152	21 001 815
Total			**138 169 835**	**67 229 230**	**70 940 605**

The wellness sector in Sri Lanka generates an estimated USD 138 million annually (SLTDA, 2024), including both service revenues and retail sales of wellness products. International benchmarks and local operator interviews indicate that operating costs represent roughly 80% of total revenue, leaving a net profit margin of approximately 20%. This cost-to-revenue ratio is consistent with the sector's structure: high labour intensity, significant import dependence for consumables and equipment, and substantial marketing costs linked to online booking platforms and international brand affiliations.

Within the USD 110.5 million cost base, salaries account for the largest share (29.4%), but a substantial proportion of skilled therapist positions are held by foreign nationals from Indonesia, Thailand, and the Philippines. While some certified Ayurvedic spas employ trained Sri Lankan staff, international recruitment remains common in the high-end and tourist-focused wellness market, contributing to direct wage repatriation. This contributes to a 35% leakage rate in the wage bill due to expatriate remittances. The second-largest cost category, COGS for products and consumables (10.3%), shows the highest leakage rate (60%), as many spa products are locally manufactured but depend on imported packaging, machinery, and certain active ingredients. Other categories such as Sales & Marketing (23.5% of costs, 95% leakage) reflect heavy reliance on foreign-controlled OTAs and marketing platforms, where commissions are retained offshore.

Utilities (2.1%), Rent/Lease (5.9%), and Maintenance (17,2%) have moderate leakage rates (40–60%), mainly due to imported equipment, hotel-owned spa facilities paying rent to foreign property owners, and foreign-supplied maintenance inputs. Resort-based spas benefit from shared facilities within hotels (reducing direct leakage at the spa level but embedding it in hotel operations), while stand-alone urban or coastal spas often lease premises from foreign owners, increasing external outflows. Utilities carry embedded leakage from imported energy equipment, such as water heating and air-conditioning systems. Licensing and taxation (10.9%) are almost entirely retained locally, showing the lowest leakage rate (20%). "Other" costs (0.7%) include insurance, franchise fees, and management fees, often linked to foreign spa brands or franchisors, resulting in a leakage rate of 50%.

Beyond operating costs, the sector also experiences profit repatriation leakage. An estimated 24% of net profits used here is consistent with observed brand penetration, distribution across key tourism areas, and the revenue scale of foreign-operated properties. Applying this proportion to the sector's estimated USD 40 million in net profits yields a profit repatriation estimate of USD 9.6 million annually. For transparency, the analysis also recognises a plausible sensitivity range of 18–30%, pending access to full registry and financial disclosure data.

This analysis highlights that while the wellness sector has strong revenue potential and plays a role in year-round tourism positioning, its net economic contribution is constrained by:

1. Certification, registration, and regulatory inconsistencies, which create space for informal or foreign-dominated operations.
2. Product standards, packaging, and machinery importation, which limit local value addition despite domestic production capacity.
3. Misalignment between health and tourism policies, particularly in Ayurveda regulation, which affects market positioning and export readiness.
4. Export potential vs. domestic bottlenecks, as some local producers could supply both the domestic wellness industry and international markets if supported through quality assurance, branding, and supply chain integration.

Addressing these structural issues could significantly improve local value retention, reduce dependency on imports, and enhance the sector's contribution to both tourism and the broader economy.

5.5. Summary of leakages across major tourism value chain components

The leakage estimates presented below cover three key components of Sri Lanka's tourism economy—accommodation, inbound package distribution (including licensed destination management companies), and wellness & spa services. Together these activities account for approximately USD 2.43 billion of total visitor expenditures, or around 78% of the USD 3.1 billion tourism economy.

While these components capture the majority of organised tourism-related spending, they do not represent the full range of visitor consumption. As such, total tourism-related leakage across the entire economy is likely higher than the estimates presented here.

The table distinguishes between:

- Operational leakages (imports, offshore payments, and foreign service inputs),
- profit repatriation linked to foreign ownership,
- leakages associated with informal and unregistered activity.

Table 15 – Summary of leakages for Accommodations, DMCs and Wellness sectors in Sri Lanka

Sector	Operational Leakages (USD million)	Profit Repatriation (USD million)	Informal Sector Leakages (USD million)	Total leakages per sector (USD million)	Total % of leakages
Accommodation	264,2	39,9	45	349,1	34,6%
Inbound Package Distribution (incl. licensed DMCs)	495,1	1,9	39,8	536,8	36,4%
Wellness & Spa	60,6	9,6	No information	70,2	50,8%

Total	**819,8**	**51,4**	**84,8**	**956,0**	**43,1%**

The consolidated analysis indicates that approximately USD 956 million leaves Sri Lanka's economy annually across the three examined value chain components, representing an average leakage rate of 43.1%.

- Accommodation accounts for USD 349.1 million in annual leakages, or 34.6% of sector revenue. The majority (USD 264.2 million) stems from operational imports—particularly non-perishable foods, beverages, linens, and equipment. Profit repatriation adds USD 39.9 million, reflecting the role of foreign-owned hotel chains, while the informal accommodation segment generates an additional USD 45 million in fiscal losses through unregistered properties that bypass VAT, levies, and formal oversight.

- Inbound package distribution (incl. licensed DMCs) generates the highest absolute leakage value at USD 536.8 million per year (36.4% of associated turnover). The largest share (USD 495.1 million) reflects operational outflows embedded primarily in supplier purchases - particularly accommodation and transport – where leakage originates upstream in import dependency and ownership structures.

  Profit repatriation remains limited (USD 1.9 million) given the predominance of local ownership. However, the informal B2C model—foreign sellers collecting payments offshore and using local proxies—represents a significant additional loss, estimated at USD 39.8 million annually.

- Wellness & spa services, though smaller in scale, show the highest proportional leakage rate at 50.8%, equivalent to USD 70.2 million annually. Operational leakages (USD 60.6 million) are driven by dependence on imported spa consumables, branded packaging, and foreign therapist wages, while profit repatriation from foreign-owned or franchised outlets adds USD 9.6 million. The informal wellness segment is acknowledged but could not be quantified with confidence.

In absolute terms, accommodation and inbound package distribution account for the largest volume of leakages (USD 349.1 million and USD 536.8 million respectively) reflecting their scale in the tourism economy. However, in proportional terms, the wellness services exhibit the highest leakage intensity (50.8%).

Together, these three value chain components account for USD 2.43 billion of the USD 3.17 billion in visitor expenditures, meaning the USD 956 million leakage estimate represents only a conservative baseline. Additional leakages—occurring in food & beverage outside hotels, excursions, retail shopping, and domestic air transport—are not included here but would raise the total significantly.

Crucially, a substantial share of the identified leakage in the inbound distribution channel reflects upstream supplier dependencies and informal offshore sales practices, underscoring the need for value-chain-wide interventions rather than segment-specific measures.

6. Key Opportunities to Reduce Leakages

The leakage analysis shows that Sri Lanka loses an estimated USD 956 million annually across accommodation, inbound tour operators, and wellness. However, findings from the visitor exit survey highlight that tourists themselves often express intentions and behaviours that, if properly channelled, they could help reduce leakages and retain more value locally. Many visitors actively seek local products, certified wellness services, and locally owned operators, yet structural barriers—such as lack of certification, reliance on OTAs, or weak visibility of ownership—prevent these preferences from translating into higher domestic retention. By explicitly integrating these demand-side insights into the strategic framework, interventions can be more sharply targeted and consumer-backed, enhancing their effectiveness.

This chapter further introduces options to reduce leakages, presenting the following possible interventions:

- Boost Formalisation and Enforcement (5.1)

- Strengthen Local Value Chains (5.2)

- Enhance Digital Payments, Licensing and Infrastructure (5.3)

- Enhance Stakeholder Sustainability (5.4)

- Marketing, Coordination and Capacity Building (5.5)

6.1. Boost Formalisation and Enforcement

Rationale Based on Leakage Findings

Across the three assessed sectors—accommodation, inbound tour operators, and wellness & spa—informal operations account for an estimated USD 84.8 million in annual leakages, representing almost 10% of the total measured losses. For inbound tour operators alone, informality in the B2C segment drains USD 39.8 million annually, while informal accommodation—predominantly unregistered guesthouses—removes another USD 45 million in untaxed turnover. These amounts do not leave the country but instead circulate outside the formal system, resulting in significant fiscal losses to government and undermining fair competition with licensed operators. Informal wellness operators also exist, though their market share could not be precisely measured; field interviews suggest they contribute significantly to untaxed turnover in urban and coastal hubs.

Tackling informality would not only recapture a meaningful share of these leakages but also boost tax revenues (TDL, VAT, IRD), strengthen visitor safety and service quality, and provide more accurate data for sector planning. By law, all tourism-related businesses should be registered with SLTDA, supported by clear legislative provisions to enforce compliance.

Visitor behaviour confirms this urgency: while 67% of tourists say they prefer locally owned and operated providers, only licensed businesses can reliably capture this demand. At the same time, the dominance of OTAs—accounting for 62% of bookings—highlights the need to link compliance with visibility, ensuring that tourists searching online are automatically directed to licensed, tax-compliant operators.

Objectives and Key Actions

Tackling informality and reducing leakages related to it requires a coordinated, stepwise and progressive approach that addresses the root causes of non-compliance, creates tangible advantages for compliant businesses, and enforces against persistent offenders.

Objective 1.1: Remove barriers to compliance and make formalisation attractive.

- Simplify and harmonise licensing processes (SLTDA, liquor licenses, transport permits) into a single-window system.
- Modernise the Online Tourism Business Licensing System (OTBLS) with multilingual, mobile-friendly access.
- Facilitate access to metered licensing for all registered tuk-tuk drivers.

Objective 1.2: Create competitive advantages for compliant businesses.

- Work with OTAs to require listing of only licensed operators.
- Introduce preferential marketing, training, and financing access for registered enterprises.
- Introduce a “Sri Lanka Tourism Trustmark” to signal compliance and quality to visitors on OTAs, national platforms, and on-site.
- Establish decentralised standards & quality assurance units to support operators in meeting and maintaining compliance.
- Link licensing to simplified, predictable tax schemes for SMEs.

Objective 1.3: Enforce against persistent non-compliance after fair compliance pathways are offered.

- Partner with Immigration, Police, and local authorities for enforcement.
- Apply proportional penalties (fines, deportations, public listing of unlicensed operators).
- Create a transparent grievance and appeals process to prevent abuse of enforcement powers.

Enabling Environment Needed

- Establish reconciliation protocols with the Registrar of Companies, Provincial Councils, and local authorities to generate a unified national registry of tourism operators.
- Undertake a legislative review to remove loopholes and harmonise licensing, tax, and enforcement powers across agencies.
- Legislative alignment between SLTDA, Ministry of Finance, and sectoral regulators to embed formalisation incentives and enforcement powers.
- Simplified SME taxation models (flat rates/presumptive schemes) embedded in Inland Revenue policy.
- Digital integration of licensing, tax registration, and VAT payment tracking to reduce administrative friction and improve traceability.
- Partnerships with OTAs for compliance-based listing requirements.
- National framework for a compliance “trustmark” integrated into digital platforms and consumer-facing promotion.
- Capacity building for decentralised quality control teams, including tourism inspectors.
- Independent grievance redressal and appeals mechanism to balance enforcement with fairness.

Feasibility and Expected Impact

Feasibility:

- High for simplification and digitalisation measures—requires political commitment and modest investment in systems upgrades. Likely to have a *direct and rapid impact* on compliance uptake, potentially recovering 15–20% of informal leakages (USD 12–17 million annually) within the first 2–3 years.

- Medium for OTA compliance partnerships—dependent on negotiation leverage and regulatory backing. While implementation feasibility may be moderate, the potential impact is high, as non-compliant operators would lose access to key distribution channels, effectively compelling formalisation and reducing informal market share.
- Medium for decentralised inspection—requires HR and training budget but benefits from existing regional SLTDA presence. To mitigate risks of harassment or facilitation of corruption, inspections should be embedded in a structured follow-up and reporting system, with digital checklists, geo-tagged evidence, and periodic audits of inspector performance. If implemented with these safeguards, the measure can gradually improve compliance in rural and secondary destinations while avoiding reputational damage. This approach could realistically recover 8–13% of informal leakages (USD 7–11 million annually) over 4–5 years, with secondary benefits in quality control, safety, and regional service standards.
- Medium for simplified SME taxation pathways — introducing flat presumptive tax schemes is administratively feasible but requires close coordination with Inland Revenue and strong communication campaigns to build trust among micro-operators.
- Medium-High for consumer-facing compliance visibility — development of a "Sri Lanka Tourism Trustmark" integrated into OTAs and Google Travel is technically feasible but depends on international platform cooperation.

Impact on Leakages:

- Realistically recover 40–60% of measured informal leakages (USD 34–50 million annually) within 3–5 years.
- Secondary benefits include:
    - Higher quality standards and service reliability, as licensing is tied to training and quality assurance.
    - Improved data for policymaking, thanks to integrated digital systems.
    - Greater equity between compliant and non-compliant businesses.
    - Increased consumer confidence, as visible compliance markers allow tourists to consciously choose licensed operators, reinforcing market preference for formalised businesses.

6.2. Strengthen Local Value Chains

Rationale Based on Leakage Findings

Reducing import dependency in Sri Lanka's tourism sector requires a two-track approach that addresses both supply-side constraints and demand-side behaviours. While procurement-related imports account for an estimated USD 150 million in annual leakages, not all imported goods can be substituted — hotels, for example, face strong expectations from both international and domestic tourists for certain products such as apples, imported meats, or premium spirits. However, many high-value imports, including tropical fruits, fresh fish, spa consumables, linens, and cleaning supplies, could be competitively replaced by locally produced alternatives if suppliers are able to meet required volumes, quality standards, and consistency. This makes it equally important to sensitise visitors to the value of consuming local products, highlighting their freshness, authenticity, and sustainability benefits, while positioning them as part of the Sri Lankan travel experience.

Visitor behaviour reinforces this opportunity: 67% of tourists often check the origin of wellness products, 51% for souvenirs, and 35% for food. Yet, 39% acknowledge purchasing imported items, primarily due to perceived quality issues (10%), lack of alternatives (22%), or brand familiarity (67%). These findings point to strong latent demand for trusted, locally made products—demand that can be tapped through credible certification and visibility.

Sri Lanka already has a foundation: the “Made in Sri Lanka” logo, a registered trademark managed by NEDA, offering recognition for products with sufficient domestic value addition (60% minimum, or 30% if design value applies). However, this scheme currently excludes services and many tourism-relevant categories. Expanding and applying it more broadly within tourism could provide a powerful mechanism to boost domestic retention, consumer confidence, and brand appeal.

To address structural bottlenecks affecting hospitality supply chains, it is proposed the establishment of a Sustainable Hospitality Supply Platform, convened by SLTDA and bringing together hotel suppliers, accommodation providers, relevant ministries, Customs, and standards authorities. The platform will focus on improving sustainability standards, import efficiency where necessary, and targeted domestic supplier upgrading. Its objective is not to promote protectionism, but to strengthen coordination, reduce avoidable procurement inefficiencies, and progressively increase domestic value retention.

Objectives and Key Actions

The objectives and key actions below therefore combine targeted supplier upgrading with measures to shift market preferences and integrate local goods more fully into tourism value chains.

<u>Objective 2.1</u>: Reduce cost barriers and improve competitiveness of local suppliers.

- Establish a structured coordination mechanism between hospitality suppliers, tourism operators, and relevant regulatory authorities to address sustainability standards, customs procedures, and supplier upgrading challenges (a Sustainable Hospitality Supply Platform).
- Provide concessional financing and reduce import duties exclusively for machinery and equipment that adds value to locally sourced raw materials (e.g., food processing equipment for tropical fruits, textile machinery for locally grown fibres, furniture-making equipment using domestic timber).
- Introduce import restrictions or disincentives for goods with reliable local substitutes (e.g., tropical fruits, fresh fish), while ensuring communication campaigns highlight quality and freshness of domestic alternatives.

<u>Objective 2.2</u>: Improve quality standards and certification for tourism supply.

- Deliver Good Agricultural Practices (GAP), sanitation, and packaging quality programmes for tourism-linked producers.
- Expand the “Made in Sri Lanka” scheme to include tourism-relevant products—such as wellness items and specialty food. Criteria should reflect value-add thresholds and quality benchmarks.
- Launch a “Made in Sri Lanka” tourism sub-label, visibly integrated into hotel menus, gift shops, and booking pages to build trust and recognition.

<u>Objective 2.3</u>: Strengthen market access and integration into tourism value chains.

- Provide grants or co-financing for SMEs in key supply sectors (e.g., linens, packaging, sanitation).
- Organise regular buyer–supplier forums and launch a digital matchmaking platform.
- Issue procurement guidelines or voluntary local sourcing standards for hotels, tour operators, and wellness providers.

<u>Objective 2.4</u>: Influence demand and consumer behaviour.

- Roll out campaigns positioning certified local products as core to the authentic Sri Lankan tourism experience.
- Encourage businesses to highlight "Made in Sri Lanka" origins in menus, in-room information, and wellness brochures.
- Leverage OTA and social media content to spotlight locally sourced, certified products, driving consumer awareness.

Enabling Environment Needed

- Cross-ministerial coordination between Tourism, Agriculture, Industry, and Trade ministries to align incentives and standards.
- Revised fiscal policies to make local sourcing competitive, including tariff adjustments and targeted tax incentives.
- Public–private partnerships for supplier upgrading and certification programmes.
- Capacity building for SMEs to scale production and meet contractual obligations.
- Industry engagement to adopt voluntary local sourcing commitments and report progress.

Feasibility and Expected Impact

<u>Feasibility:</u>

- Medium-High for expanding the "Made in Sri Lanka" label—builds on an existing legal and institutional framework but requires adaptation and marketing.
- Medium-High for targeted supplier upgrading — builds on Sri Lanka's existing agricultural and artisanal production base, but requires coordinated policy action, SME financing, and buyer commitment. Success hinges on aligning tourism procurement schedules with domestic supply capacity and prioritising product categories with the highest return on investment. For example, high-value processed foods, specialty seafood, quality linens, and wellness products often deliver greater economic retention per unit than bulk, low-margin items such as common fruits and vegetables.
- Medium for policy incentives (duty reductions, concessional financing) — contingent on ensuring machinery is used to add value to *locally sourced* raw materials, not to expand imports of semi-processed goods. Requires monitoring systems to verify local content and prevent misuse.
- Medium for buyer–supplier integration platforms — needs sustained facilitation, regular buyer forums, and digital matchmaking to overcome trust gaps and information asymmetries.
- Lower feasibility for restrictive import measures — politically sensitive if perceived as reducing choice for domestic tourists or quality for international visitors. Mitigation requires strong visitor sensitisation campaigns and clear communication of quality equivalence for local products.

Impact on Leakages:

- Realistically recover USD 45–75 million annually over 3–5 years if supplier upgrading, targeted buyer linkages, and selective import substitution are implemented together, focusing on high-ROI product categories (e.g., quality linens, premium seafood, branded wellness products) rather than low-margin staples.
- The upper bound would require high adoption rates by major hotel groups, integration of SMEs into value chains, and strong visitor acceptance of local alternatives.

- Secondary benefits remain substantial: improved rural incomes, diversification of agricultural and light-manufacturing sectors, and a stronger sustainability narrative for Sri Lanka's tourism brand.

6.3. Enhance Digital Payments, Licensing and Infrastructure

Rationale Based on Leakage Findings

Cash-based transactions, unrecorded sales, and weak integration between licensing and tax systems contribute to untraceable tourism flows and reduced fiscal capture. In the three assessed sectors, significant leakage arises from untaxed bookings (especially via OTAs), unreported cash transactions by SMEs, and licensing systems that fail to link with tax authorities. While exact figures are challenging to isolate, conservative estimates suggest that improved payment traceability and licensing integration could recapture a portion of the USD 84.8 million linked to informal activity and further reduce operational leakages from underreported sales.

Survey results reinforce these risks: 62% of visitors booked accommodation through international OTAs, where VAT on booking commissions is often not captured domestically, and only 19% used Sri Lankan platforms. This pattern highlights both the fiscal vulnerability of the current system and the opportunity to align reforms in digital payments, licensing, and tax enforcement with the actual booking behaviour of visitors. In practice, this means focusing less on replacing global intermediaries and more on ensuring that every transaction—regardless of channel—is traceable, taxed, and integrated into Sri Lanka's tourism economy.

In practice, this requires shifting focus away from building competing booking platforms toward embedding compliance requirements (VAT, licensing checks) within existing dominant channels, while simultaneously expanding low-cost mobile payments in underserved destinations. Such reforms would align fiscal capture with visitor booking and payment behaviour, reducing leakage while making it easier for tourists to spend locally.

Objectives and Key Actions

Facilitating local bookings and payments and reducing revenue leakage in Sri Lanka's tourism sector will require improving the transparency, efficiency, and traceability of transactions, while also making it easier and more cost-effective for tourists and businesses to engage in compliant, cash-free spending. Simplified, accessible licensing processes will complement these measures by encouraging operators to formalise and fully participate in the regulated economy.

<u>Objective 3.1</u> – Expand digital payment adoption and reduce transaction costs

- Promote and expand the use of low-fee, widely accepted digital payment systems (e.g., Alipay+, UPI) in partnership with banks, fintechs, and telecoms. These systems already offer lower transaction costs than traditional credit cards, making them attractive for both operators and customers.
- Targeted deployment in high-tourism and underserved rural areas will reduce payment friction, encourage formal transactions, and make it easier for visitors to spend locally.
- Encourage businesses to integrate multiple platforms to accommodate diverse source markets (e.g., Indian UPI, Chinese Alipay, European wallets).

<u>Objective 3.2</u> – Digitise and simplify licensing and renewal

- Launch a multilingual, mobile-friendly registration and renewal platform with integrated help desks.
- Enable one-click renewals for compliant businesses and real-time status tracking.
- Create digital licensing channels for niche sectors (e.g., adventure tourism, wellness) and equipment imports.

Objective 3.3 – Strengthen transaction monitoring and fiscal integration

- Link SLTDA licensing and registration systems directly to Inland Revenue Department (IRD) and VAT databases.
- Partner with card companies, OTAs, and payment gateways to share transaction data, ensuring Sri Lanka captures its fair fiscal share.
- Require VAT collection and remittance for all OTA bookings made within Sri Lanka, with enforcement mechanisms for non-compliance.

Enabling Environment Needed

- Regulatory amendments to mandate acceptance of digital payments — including mobile-based solutions — for all licensed tourism operators.
- Data-sharing agreements between SLTDA, IRD, and private payment platforms to enable transaction traceability.
- National-level policy to standardise OTA VAT obligations and ensure compliance by foreign platforms.
- Infrastructure investment to ensure reliable mobile network coverage and bandwidth in rural and high-traffic tourism destinations.

Feasibility and Expected Impact

Feasibility:

- High for digital and mobile payment adoption in urban and coastal hubs where digital penetration is already strong; Medium in rural areas requiring infrastructure upgrades.
- Medium-High for licensing platform integration, as it builds on existing systems but requires cross-ministerial IT coordination.
- Medium for OTA VAT enforcement—requires legal reforms and international cooperation.

Impact on Leakages:

- Could realistically reduce cash-based and unreported transaction leakages by 20–30% of the currently estimated USD 84.8 million linked to informality and untaxed flows.
- Additional benefits include increased tourist spending through easier mobile payment acceptance, improved tax revenue forecasting, reduced compliance costs for SMEs, and more robust data for tourism planning.

6.4. Enhance Stakeholder Sustainability

Rationale Based on Leakage Findings

Sustainability gaps—both environmental and social—contribute to hidden leakages in Sri Lanka's tourism value chain. A particularly visible example is in the *Ayurveda* sector, where the absence of recognised standards allows uncertified operators to use the name without meeting authenticity or quality benchmarks. This undermines the potential to position *Ayurveda* as Sri Lanka's flagship therapeutic tourism offer, despite the country's unique heritage: more than 600 endemic medicinal plants—exceeding India's count—and deep, intergenerational knowledge of transforming these into personalised treatments.

Unlike spa-driven competitors such as Thailand and Bali, Sri Lanka can differentiate itself by focusing on authentic *Ayurveda Karma*—a holistic mind–body–spirit philosophy integrating food, meditation, yoga, and physical wellbeing—while avoiding the industrialisation seen in India's mass-market Ayurveda. However, without strict name protection, certification, and market positioning, the sector risks blending into generic "wellness" offerings with lower value retention.

Survey evidence confirms the strength of this opportunity: 25% of visitors reported actively searching for sustainable initiatives before arrival, while origin-checking was far higher for wellness products (67%) than for food (35%) or souvenirs (51%). This shows that travellers are actively seeking trustworthy, certified Ayurveda and wellness experiences, but current gaps in standards and credibility prevent these intentions from being translated into high-value purchases.

The recently introduced "Made in Sri Lanka" trademark, launched by the National Enterprise Development Authority (NEDA), already provides a national branding tool for certified Sri Lankan products. Extending its application to Ayurveda-based treatments, wellness consumables (herbs, oils, teas), and certified service providers could help guarantee authenticity, build international recognition, and create consumer trust. Linking Ayurveda certification to this existing trademark could give operators a globally recognisable quality label, enabling tourists to identify credible services and products instantly.

Field consultations suggest that protecting and upgrading Ayurveda, improving sustainability in tourism operations, and strengthening inclusive workforce policies could generate significant retention gains—particularly in the USD 84.2 million wellness segment, as well as in other parts of the sector where operational imports remain high.

However, the problem is not confined to Ayurveda alone. Similar credibility and sustainability challenges are observed in other segments:

- In food and gastronomy, weak traceability undermines efforts to showcase local sourcing, despite strong visitor interest (35% check origin of dishes, and 58% report choosing seasonal food).
- In the souvenir sector, lack of certification allows imported mass-produced items to be sold as "local," reducing value retention even though 51% of visitors report checking origins.
- In the broader wellness and spa market, dependence on imported consumables, packaging, and foreign therapists create both environmental and social sustainability gaps, while certification for sustainable practices remains limited.
- In accommodation, particularly at the informal end, absence of sustainability standards means that energy, water, and waste management practices are rarely monitored, amplifying hidden environmental leakages.

Sustainability and standards gaps are widespread across Sri Lanka's tourism sectors—not just Ayurveda. The National Sustainable Tourism Certification Scheme (NSTCS), rolled out by SLTDA with UNDP and aligned with GSTC criteria, initially targeted accommodation but, since 2023, has expanded to include spas, Ayurveda centres, crafts, cafés, and homestays, with over 100 SMEs certified to date. The R-NSTC self-assessment framework further supports operators in assessing sustainability preparedness across multiple dimensions—environmental, cultural, and social.

At a grassroots level, the Sri Lanka Ecotourism Foundation (SLEF) fosters sustainable community-based tourism—eco-lodges, heritage projects, renewable energy adoption in remote areas, and capacity-building for rural entrepreneurs. Local initiatives such as Green Sustainable also play a role in promoting awareness and helping businesses adopt sustainability practices. However, when set against the overall size of the market—with thousands of accommodation providers, restaurants, spas, and craft outlets—these efforts remain modest. The limited reach of certification and sustainability initiatives demonstrates the need to significantly scale up stakeholder involvement, so that sustainability becomes mainstream rather than niche.

Moreover, a handful of properties, such as Heritance Kandalama, have adopted globally recognized green building and sustainability standards like LEED and Green Globe, signaling early leadership in certified sustainable accommodation. Yet such examples remain isolated, underlining that Sri Lanka's potential to position sustainability as a competitive advantage is far from fully realised.

Objectives and Key Actions

To capture the full economic and reputational potential of Sri Lanka's authentic *Ayurveda* heritage while advancing environmental and social sustainability, targeted actions are required to strengthen certification and market positioning, accelerate green transitions in operations, broaden workforce inclusion, and align procurement practices with sustainability principles. The following objectives set out a coordinated framework to address these priorities.

Objective 4.1 – Build credibility and value in Ayurveda

- Legally protect the use of the term *Ayurveda* through a national certification and name-control framework.
- Integrate clinical validation and certified standards into Ayurveda spa services.
- Extend the "Made in Sri Lanka" trademark to cover certified Ayurvedic services and wellness consumables, creating a visible quality seal for both products and experiences.
- Partner with insurance providers to recognise certified Ayurvedic treatments for coverage.
- Market *Ayurveda* as a core tourism identity in destination branding and campaigns, while positioning generic spas as complementary wellness offers.

Objective 4.2 – Accelerate the green transition in tourism operations

- Offer targeted transition programs to help operators adopt energy-efficient equipment, renewable energy solutions, and waste reduction practices.
- Provide concessional financing or grants for operators meeting verified sustainability targets.

Objective 4.3 – Strengthen social inclusion and workforce resilience

- Encourage gender-sensitive hiring policies, including second-career programs for women returning to the workforce.
- Support vocational training in sustainability-focused roles (energy management, sustainable procurement, waste auditing).
- Acknowledge and address the reputational risks associated with the importation of sex workers under the guise of spa masseurs in parts of the wellness sector. Promote *Ayurveda*'s principles—such as ensuring that men are treated by male therapists and women by female therapists—as a safeguard that reassures women and their families. This culturally aligned

practice can help attract more women into the sector by creating a safe, respected, and professional work environment.

Objective 4.4 – Align procurement and contracting with sustainability standards

- Promote local and sustainable sourcing policies across accommodation, wellness, and tour operations.
- Encourage inclusion of sustainability certifications as a selection criterion in B2B and government contracts.

Enabling Environment Needed

- National *Ayurveda* certification framework with clinical validation protocols and protected use of the name "Ayurveda" to prevent misuse.
- Expansion of the "Made in Sri Lanka" trademark to Ayurveda and wellness products/services, ensuring that authenticity is visible and enforceable in both domestic and international markets.
- Integration of sustainability and gender-safety criteria into SLTDA licensing and tourism quality standards.
- Partnerships with insurance companies to expand coverage for certified Ayurvedic treatments, starting with domestic insurers and medical tourism packages. This will require the creation of a national clinical validation and standardisation framework, clear provider certification, and cost transparency. In the medium term, Sri Lanka could seek recognition under WHO Traditional Medicine guidelines to open the door for limited international insurer coverage.
- Policy incentives for renewable energy adoption in tourism facilities (e.g., tax rebates, concessional loans).
- Gender equity and inclusion guidelines in tourism workforce development strategies, explicitly promoting *Ayurveda*'s cultural practices (e.g., same-gender therapist assignments) to enhance safety and encourage female participation.
- Targeted supplier upgrading programmes for locally sourced wellness inputs (oils, herbs, equipment) to reduce import dependency.

Feasibility and Expected Impact

Feasibility:

- Medium-High for *Ayurveda* certification schemes — leverages Sri Lanka's recognised heritage and biodiversity, requiring primarily governance alignment and enforcement mechanisms.
- Medium-High for linking to the "Made in Sri Lanka" trademark — uses an existing platform, reducing administrative costs and ensuring faster rollout.
- Medium-High for green transition programmes — requires financing instruments and technical assistance but aligns with global donor and climate finance priorities.
- Medium for workforce inclusion initiatives — dependent on cross-sector partnerships and social acceptance, but strengthened by *Ayurveda*'s cultural safeguards.
- Medium for supplier upgrading — builds on local agricultural and artisanal strengths but requires market commitment from tourism operators.

Impact on Leakages:

- Stronger credibility through the "Made in Sri Lanka" seal could convert sustainability-driven intentions into real spending, increasing retention in the wellness segment.
- Reduced operational imports (energy, non-local wellness products) could lower leakage rates in the wellness & spa segment by an estimated 5–10 percentage points over time, with higher gains if local input supply is upgraded.
- Certified Ayurveda positioning would not only capture higher-value wellness demand but also ensure that value circulates domestically through trusted, certified local providers.
- Strengthened domestic supply chains and inclusive employment will further increase local retention and resilience, with long-term brand benefits for Sri Lanka as a sustainable, regenerative and Ayurveda tourism destination.

6.5. Marketing, Coordination and Capacity Building

Rationale Based on Leakage Findings

While marketing and governance are not direct leakage drivers in the same way as import dependence or informality, they strongly influence tourism demand composition and spending patterns. Weak coordination among ministries and underuse of market intelligence can lead to misaligned promotion, attracting lower-yield segments and missing opportunities in high-value niches such as certified Ayurveda and year-round cultural tourism. In the absence of coherent national branding, Sri Lanka risks underperforming in markets where it could capture higher per-capita spend, thereby failing to offset existing leakages in other parts of the value chain.

Field consultations also highlighted skill gaps in hospitality—particularly in language proficiency, service quality, and technology use—that limit the country's ability to convert arrivals into higher-value retention.

Visitor behaviour reinforces these challenges but also signals opportunities. The survey shows that:

- 41% of tourists actively sought locally owned businesses, yet 40% "did not pay attention" to ownership, often due to lack of visibility on booking platforms.
- 32% searched for locally made products and 25% for sustainable initiatives before travel, but these were not consistently visible in marketing.
- 62% booked accommodation through OTAs, where VAT is rarely captured domestically, while only 19% used Sri Lankan platforms.

This evidence suggests that improving visibility, certification, and compliance-linked promotion could align Sri Lanka's branding with visitor intentions, making it easier for tourists to choose local, sustainable, and licensed providers.

One proposal often raised to reduce OTA-related leakages is the creation of a national booking website. While this could, in theory, retain more commissions domestically, such platforms almost never compete effectively with global OTAs like Booking.com, Agoda or Expedia in terms of visibility, user trust, multilingual support, and marketing budgets. Instead of trying to replace them, a more realistic approach is to negotiate fairer commission structures, enforce VAT capture, and make OTA visibility conditional on licensing compliance.

Objectives and Key Actions

To address these gaps and position Sri Lanka to capture higher-yield market segments, a coordinated set of actions is required—strengthening governance, building a data-driven marketing approach, upgrading workforce capabilities, and establishing a compelling national brand centred on certified Ayurveda and year-round cultural tourism.

Objective 5.1 – Strengthen institutional coordination and governance

- Establish functional coordination mechanisms for tourism policy implementation — Rather than re-creating the full interministerial committee used during COVID-19, build on existing working groups or focal points within key ministries to ensure alignment between public and private sector priorities.
- Integrate and enforce tourism priorities through the new national tourism policy — Use the policy's implementation framework to embed tourism considerations into investment, infrastructure, and trade decisions from the outset, ensuring that cross-ministerial action plans and budget allocations are aligned with tourism development objectives.

Objective 5.2 – Drive data-informed marketing

- Develop and maintain a central tourism market intelligence system to guide promotional efforts by segment and source market, incorporating sentiment analysis of online reviews and social media content to capture real-time traveller perceptions and emerging trends.
- Use performance metrics—such as cost per acquisition (CPA), return on advertising spend (ROAS), average booking value, and sentiment scores—to continuously optimise campaign targeting, messaging, and channel mix. Campaigns should be reviewed quarterly (or more frequently for digital channels) to reallocate budgets toward the highest-yield segments and markets.

Objective 5.3 – Upgrade workforce skills and service delivery

- Revise national tourism and hospitality curricula to integrate sustainability modules (climate change adaptation, circular economy, ESG standards, international certifications such as GSTC or EU ecolabels) alongside language skills, service excellence, and technology adoption.
- Co-design modular sustainability curricula adaptable to tourism, piloted in 2–3 TVET institutions, and delivered via a "train-the-trainer" model with mentoring from industry practitioners (e.g., eco-lodge managers, sustainable product developers).
- Reform business models of application hotels (e.g., SLITHM's facilities) so they operate as commercially viable hotels rather than as purely academic environments—ensuring students gain real-world operational experience in guest-facing, revenue-driven contexts.
- Ensure national accreditation of revised curricula through the national qualifications authority, while streamlining approval processes to avoid delays in adoption and maintaining alignment with industry needs.

Objective 5.4 – Develop and refine competitive positioning

- Build national branding around certified Ayurveda and link it to the "Made in Sri Lanka" trademark to guarantee authenticity for both products and services. (related to 4.1).
- Position Sri Lanka as a year-round destination by strategically aligning cultural events, regional product offerings, and marketing campaigns with seasonal climate variations. Leverage differences in rainfall patterns between the southwest and northeast monsoon zones to promote alternative regions during wet periods, highlighting that at any given time at least part of the country offers optimal travel conditions.
- Highlight sustainability-driven choices (local sourcing, eco-certified operators) as part of the competitive positioning.

Objective 5.5 – Execute large-scale, targeted promotion

- Launch compliance-linked global campaigns, ensuring only licensed and tax-compliant operators participate.
- Emphasise segments backed by demand evidence (certified Ayurveda, cultural tourism, local products, eco-adventure).
- Partner with OTAs, airlines, and influencers, but make visibility conditional on formalisation.
- Ensure campaigns also promote low season travel to reduce seasonality impacts.

Enabling Environment Needed

- Enforcement of the new national tourism policy as the main coordination mechanism between ministries, with clear linkages to investment, infrastructure, and trade priorities.
- Access to timely, reliable tourism data, including sentiment analysis of online reviews, integrated into SLTDA's planning and marketing systems.
- Multi-year funding mechanisms for marketing, reducing dependence on annual budget cycles.
- Public–private partnerships for co-financing campaigns, training, and market intelligence tools.
- Alignment of branding and promotional access with quality assurance and certification schemes (e.g., certified Ayurveda standards), so only compliant operators benefit from national and international exposure.

Feasibility and Expected Impact

Feasibility:

- High for training upgrades—leveraging existing TVET capacity once curricula are accredited and linked to industry needs.
- Medium-High for market intelligence and sentiment analysis—requires initial investment but aligns with donor and private sector interests.
- Medium for sustained compliance-linked global campaigns—depends on securing multi-year funding and establishing strong public-private cost-sharing agreements.

Impact on Leakages:

- Indirect but significant—shifting towards high-value markets and better-prepared service delivery can raise per-capita tourist spending, increasing domestic retention.
- Stronger branding around certified Ayurveda and "Made in Sri Lanka" products could boost the wellness segment, capturing a greater share of global wellness tourism flows, while ensuring benefits flow to licensed and tax-compliant operators.
- Data-driven marketing and coordinated policy enforcement can channel demand toward formalised businesses, reinforcing domestic sourcing and maximising the effect of other leakage-reduction measures.

6.6. Likelihood of impact, impact magnitude, and feasibility

The Leakage Reduction Activity Matrix provides a strategic view of the five key opportunity areas identified through the leakage analysis—boosting formalisation, strengthening local value chains, enhancing digital payments and licensing, promoting stakeholder sustainability, and improving marketing and coordination.

Each activity is assessed according to:

- Likelihood of Impact: How probable it is that the activity will effectively reduce leakages given the current operating context.
- Magnitude of Impact: The scale of potential leakage reduction in monetary terms and sector coverage.
- Feasibility: A composite measure of practical implementation capacity, accounting for governance quality, administrative capabilities, potential for stakeholder buy-in, corruption risks, industrial readiness, and alignment with market demand.

Table 16 – Leakage Reduction Activity Matrix

Activity	Likelihood of Impact	Impact Magnitude	Feasibility	Notes / Considerations
Boost Formalisation and Enforcement	5	5	4	Strong leverage if linked to access to key distribution channels; Survey evidence (67% prefer local operators, 62% book via OTAs) shows high potential impact; must ensure enforcement avoids harassment or corruption risks.
Strengthen Local Value Chains	4	5	3	Returns vary by product; high-ROI categories should be prioritised over low-margin goods (e.g., some fresh produce). Visitor demand for origin-checked goods (wellness 67%, souvenirs 51%) reinforces this opportunity.
Enhance Digital Payments, Licensing & Infrastructure	4	4	3	Dependent on cross-ministerial integration; easier uptake in urban/coastal hubs; requires mobile payment readiness and competitive transaction costs.
Enhance Stakeholder Sustainability	3	4	3	Ayurveda-focused approach could improve credibility, support women's participation, and reduce operational imports, amplifying long-term gains.
Marketing, Coordination & Capacity Building	4	3	4	Linking marketing access to licensing/tax compliance creates strong incentives for formalisation while reinforcing high-value positioning.

Key observations from the table:

- Boost Formalisation and Enforcement ranks highest in both likelihood and magnitude, with strong feasibility — a top-priority quick win. *(This reflects the strong leverage of linking formalisation to access to key distribution channels, but care is needed to ensure enforcement mechanisms avoid harassment or corruption risks.)*

- Strengthen Local Value Chains has very high potential impact but slightly lower feasibility due to industrial capacity and substitution limits. *(Returns will vary significantly by product category; some low-margin goods such as fresh produce may not justify investment, so prioritisation toward high-ROI items is essential.)*

- Enhance Digital Payments, Licensing & Infrastructure has good potential and medium feasibility but depends heavily on cross-ministerial integration. *(Uptake will be easier in urban/coastal hubs than rural areas and will require mobile payment readiness and transaction cost competitiveness.)*

- Enhance Stakeholder Sustainability offers moderate impact but can serve long-term positioning goals — likely more gradual gains. *(An Ayurveda-centred approach could amplify impact by improving credibility, supporting women's participation, and reducing operational imports.)*

- Marketing, Coordination & Capacity Building has modest direct leakage impact but high feasibility and strong indirect benefits. *(Tying marketing participation to licensing/tax compliance can create a strong commercial incentive for formalisation while reinforcing high-value positioning.)*

7. Action Plan and Implementation Sequencing

The five activities define thematic areas of intervention, while the five steps describe the sequencing of implementation over time; each activity is therefore implemented progressively across multiple steps.

7.1. Stepwise Approach

This stepwise approach builds directly on the key actions presented in Chapter 5, translating them into a phased implementation pathway informed by stakeholders' validation. While Chapter 5 identifies *what* needs to be done (e.g., digitalisation of licensing, stronger OTA regulation, SME upgrading, ayurveda certification), the sequencing below clarifies *how* these measures can be rolled out in practice, and under what conditions they become effective.

Each step links back to the Chapter 5 action areas of formalisation and enforcement, SME upgrading, local sourcing, sustainability integration, and digital marketing.

Stakeholder consultations strongly confirmed that reducing economic leakages linked to informality requires a pragmatic, incentive-led approach, where support mechanisms and access to the tourism market precede enforcement. The stepwise method therefore prioritises the removal of regulatory and cost barriers, the creation of simple and affordable formalisation pathways, and the use of market access incentives before moving toward stricter compliance and deterrents.

This sequencing is not only more equitable, but also more cost-effective than relying solely on strict enforcement. Simplifying and digitalising formalisation reduces compliance costs for operators at a fraction of the public cost required for sustained inspections, investigations, and inter-agency enforcement. By front-loading assistance, incentives and market access conditions, public institutions can maximise voluntary compliance, preserve enforcement capacity for persistent non-compliance, and strengthen overall sector cooperation.

This sequencing builds trust, improves uptake, and channels demand toward operators who contribute to the domestic economy through tax compliance, traceable digital payments, and local sourcing, rather than treating informality as an isolated compliance failure.

Step 1 – Remove Barriers to formalisation

The first priority is to make formalisation easy, affordable, and predictable. Stakeholders feedback confirms that a large share of informal operators is not deliberately evading regulation, but is discouraged by prohibitive costs, complex procedures, unclear requirements and fragmented institutional responsibilities.

The step focuses on removing these structural barriers and offering a credible entry pathway into the formal tourism economy. The following actions require formal coordination arrangements (e.g. Memoranda of Understanding or equivalent administrative instruments) between SLTDA and the relevant ministries (including the Ministry of Public Authorities), agencies, and subnational authorities to ensure consistent application.

Actions

- Streamline licensing into a single-window, mobile-friendly digital platform integrating SLTDA, tax registration, sector-specific permits, and digital payment acceptance obligations. This directly relates to the Chapter 5 key action on simplifying registration and licensing.
- Explicitly require SLTDA preliminary approval before any provincial/local development permits are issued
- Remove unnecessary or outdated regulatory requirements (e.g., overlapping inspections, redundant forms).
- Reduce upfront licensing and renewal fees for SMEs, particularly in rural or emerging destinations.
- Launch a domestic and in-destination outreach and visibility campaign (“Book Licensed, Buy Local”) targeting operators, domestic intermediaries and visitors already in Sri Lanka to explain benefits of registration to operators and improve visibility of compliant businesses.

Expected Outcome: Faster and cheaper entry into the formal market, reduced incentives for informality, and a higher share of operators adopting traceable, digital payment systems from the outset.

Step 2 – Facilitate Compliance and retention

Once barriers are lowered, businesses must be supported to remain compliant over time. Stakeholders emphasized that compliance is sustained not by inspections alone, but by clear benefits and on-going support.

This step uses positive incentives and targeted assistance particularly in rural and high-leakage destinations.

Actions

- Grant preferential access to national marketing, finance schemes, and training exclusively to licensed and tax-compliant businesses. This aligns with Chapter 5 measures to link incentives and market access to compliance. These measures do not require new regulation but are implemented through administrative eligibility criteria governing access to public marketing, financing, and training programmes.
- Introduce time-bound grace periods with technical support for operators transitioning to compliance.
- Deploy centralised support functions (digital help desks, and remote assistance) for licensing, VAT registration, and digital payment onboarding, rather than decentralised enforcement structures vulnerable to local capture.
- Provide real-time feedback tools, using sentiment analysis of online reviews, to support service quality improvements among compliant operators.
- Ensure consumer-facing visibility: registered businesses to be flagged with an SLTDA compliance badge across booking platforms, social media, and national campaigns.

Expected Outcome: Higher voluntary compliance, stronger retention in formal systems, and wider adoption of traceable transactions. Building on the initial leakage baseline and early implementation data generated through licensing, compliance, and digital onboarding, tourism market intelligence systems—including sentiment analysis—can be progressively strengthened to better target high-impact segments and value-retention opportunities as implementation advances.

Legal Sequencing and Enabling Framework

Several actions under this Action Plan—particularly those related to conditional market access, delisting of unlicensed operators, public disclosure of non-compliance, and the application of graduated penalties—require an explicit legal basis to ensure due process, consistency, and enforceability.

To avoid fragmented or ad hoc implementation, the adoption of a single enabling Ministerial Decree at an early stage of implementation is therefore strongly recommended. This decree would formally authorise SLTDA to introduce a time-bound reconciliation and grace period for unlicensed operators, define the conditions under which market access (including OTA listings and participation in national promotion) is restricted to licensed entities, and establish the legal basis for coordinated enforcement actions following the grace period.

By sequencing this decree after initial barrier-removal measures (Step 1) and compliance facilitation measures (Step 2), but before market-based enforcement (Step 3) and graduated deterrents (Step 5), the Government can unlock multiple actions simultaneously while ensuring fairness and legal certainty.

This approach reduces regulatory fragmentation, limits legal risk, and provides a clear transition path from voluntary compliance to enforceable obligations. It also strengthens cooperation with private platforms and enforcement agencies by providing a common legal reference point for action.

Step 3 – Leverage market access for Enforcement

Enforcement is introduced only after fair and accessible compliance opportunities have been extended. Stakeholder feedback strongly supports the use of market access- particularly through OTAs – as the primary enforcement lever rather than relying solely on inspections

This step focuses on coordinated, data-driven enforcement targeting persistent non-compliance.

Actions

- Following reconciliation, unregistered operators are granted a final, time-bound grace period (e.g. three months) to register before delisting and legal action.
- Formalize agreements with OTAs to require listings exclusively for SLTDA-licensed operators, including a visible "SLTDA Licensed" badge. This reinforces the Chapter 5 recommendation on negotiating with OTAs for compliance-based listings
- Established structured cooperation with Immigration, Police, and relevant authorities for targeted joint inspections, focused on repeat offenders: Under the enabling Ministerial Decree, establish structured cooperation with Immigration, Police, and relevant authorities for targeted joint inspections of repeat offenders.
- Create secrete and anonymous reporting channels for tourists and operators to flag unlicensed activities.

- Strengthen digital linkages between IRD, Customs, and SLTDA to identify non-compliant entities and track repeat violations.

Expected Outcome: Higher detection rates, reduced persistence of informality, improved cross-agency data integrity, and stronger consumer trust in Sri Lanka's tourism offer.

Step 4 – Expand competitiveness, local value chain and quality

For compliance to be sustainable, formal businesses must also be competitive. This step strengthens the domestic supply base by promoting local sourcing, providing financing for quality upgrades, and embedding sustainability and certified Ayurveda standards into national tourism frameworks. The aim is to reduce import dependency and enhance Sri Lanka's reputation in high-value market segments.

As part of Step 4, implementation will prioritise high-return import substitution categories—such as processed foods, wellness inputs, and FF&E—based on the leakage analysis and an assessment of domestic supplier readiness.

Actions

- Establish a sustainability hospitality supply platform to address sustainability standards, customs procedures, and supplier upgrading challenges
- Develop voluntary procurement guidelines promoting local sourcing in tourism supply chains, aligned with seasonal availability and quality standards.
- Facilitate structured commercial linkages between tourism operators and domestic suppliers through partnerships with NEDA, private wholesalers, and hotel supply networks. While NEDA plays a coordination role, implementation will prioritise commercially viable partnerships with private wholesalers and hotel suppliers to avoid excessive dependency on public-sector intermediaries.
- Provide concessional financing and co-financing for SME upgrading production quality and scale (e.g., GAP certification, sustainable packaging). This reflects Chapter 5 key actions on SME upgrading and promoting sustainable sourcing
- Establish a formal coordination mechanism between SLTDA and the Department of Ayurveda, whereby the Department of Ayurveda defines and validates standards for Ayurveda and Ayurveda-branded spa services, and SLTDA conditions tourism certification and market access on compliance with these standards.
- Extend the "Made in Sri Lanka" trademark to tourism-linked products (spa oils, herbal cosmetics, crafts, gastronomy), ensuring clear labelling and consumer trust.
- Reform vocational training institutions (e.g., SLITHM) so that application hotels operate commercially, giving students real-world operational experience.

Expected Outcome: Reduced import dependency, higher domestic value retention, improved credibility of Sri Lanka's Ayurveda sector, and competitive service quality across tourism products.

Step 5 – Apply Graduated Deterrents

Only after the system has been made accessible, supportive, and transparent are stronger deterrents applied. This final step establishes that compliance is non-negotiable, while preserving fairness and proportionality.

Actions

- Introduce a graduated penalty framework: fines, public listing of non-compliant businesses in the SLTDA online registry, suspension of licenses, and deportation of foreign-run unlicensed operators. This operationalises Chapter 5's call for graduated enforcement and corrective penalties
- Public disclosure of enforcement actions through SLTDA registries and official channels to create reputational pressure and reinforce the value of compliance.

Expected Outcome: Clear disincentives for remaining informal after fair compliance opportunities, stronger perception of a level playing field.

Cross-Cutting Measures

- Monitoring & Evaluation (M&E): Initiate an in-depth leakage assessment and baseline study during the early implementation phase, building on this Rapid Assessment, to refine indicators and establish realistic benchmarks before full KPI tracking: (number of registered operators, % OTA listings compliant, % SMEs sourcing locally, share of digital transactions).
- Gender & Inclusion Safeguards: Embed support for women- and youth-owned SMEs, with simplified procedures and targeted financing.
- Visitor Engagement: Launch a "Book Licensed, Buy Local, Choose Sustainable" campaign, encouraging tourists to consciously choose certified operators and products.

Together, these five steps mirror the priorities identified in Chapter 5 and set them out in a practical sequence. This ensures that reforms are introduced progressively—starting with support and incentives before moving toward stricter enforcement—so that the Chapter 5 key actions can be delivered in a way that is feasible, fair, and cost-effective.

Table 17 - Sequenced Action plan

Activities	Steps (Sequencing)	Associated Objectives	**Validated Key Actions**	Timing (Quarter)												Nature of action	Supporting institutions
				1	2	3	4	5	6	7	8	9	10	11	12		
Boost Formalisation and Enforcement	Step 1 – Remove Barriers to Formalisation	Make formalisation easy, affordable and predictable for informal and semi-formal operators.	Streamline licensing into a single-window, mobile-friendly digital platform integrating SLTDA, tax registration, sector-specific permits and digital payment acceptance obligations (MOUs between concerned departments/Ministries)	x	x	x	x									Administrative / Regulatory / Digital	SLTDA; ICTA; Inland Revenue Dept. (IRD); Excise Dept.; Transport Authority; Provincial Councils; Local Authorities
			Require SLTDA preliminary approval before any provincial or local development permits are issued (MOUs between concerned departments/Ministries).	x	x											Regulatory / Institutional coordination	SLTDA; Ministry of Public Authorities; Provincial Councils; Local Authorities; Ministry of Tourism
			Remove unnecessary or outdated regulatory requirements (overlapping inspections, redundant forms).	x	x	x										Regulatory reform / Administrative simplification	SLTDA; Ministry of Tourism; Line Ministries; Provincial Authorities
			Reduce upfront licensing and renewal fees for SMEs, particularly in rural or emerging destinations.		x	x	x									Fiscal / Incentive-based	SLTDA; Ministry of Finance; Provincial Councils
			Launch a domestic and in-destination outreach and visibility campaign ('Book Licensed, Buy Local') targeting operators, domestic intermediaries, and visitors already in Sri Lanka.			x	x	x	x	x	x	x	x	x	x	Communication / Behavioural incentive	SLTDA; Sri Lanka Tourism Promotion Bureau (SLTPB); NEDA; Industry Associations (THASL, ASMET, SLAITO)
	Step 2 – Facilitate Compliance and Retention	Sustain compliance by making formal status economically and operationally worthwhile.	Grant preferential access to national marketing, financing schemes and training exclusively to licensed and tax-compliant businesses.			x	x	x	x	x	x					Incentive-based / Market access	SLTDA; SLTPB; Ministry of Finance; Banks; Development Partners
			Introduce time-bound grace periods with technical support for operators transitioning to compliance.				x	x	x							Regulatory / Facilitation	Ministry of Tourism; Attorney General's Department; SLTDA; Inland Revenue Department; Immigration Department; Police
			Deploy centralised support functions (digital help desks and remote assistance) for licensing, VAT registration and digital payment onboarding.			x	x	x	x	x						Administrative / Digital support	SLTDA; ICTA; IRD; Telecom Operators
			Ensure consumer-facing visibility through an SLTDA compliance badge across booking platforms, social media and national campaigns.				x	x	x	x	x	x	x	x	x	Regulatory / Marketing	SLTDA; OTAs; SLTPB
	Step 3 – Leverage	Address persistent non-compliance through market-based	Grant a final, time-bound grace period (e.g. three months) before delisting and legal action.						x							Regulatory (Ministerial Decree) /	Ministry of Tourism; Attorney General's Department; SLTDA; Inland Revenue Department;

Activities	Steps (Sequencing)	Associated Objectives	**Validated Key Actions**	Timing (Quarter)												Nature of action	Supporting institutions
				1	2	3	4	5	6	7	8	9	10	11	12		
	Market Access for Enforcement	and data-driven enforcement.														Enforcement sequencing	Immigration Department; Police
			Formalise agreements with OTAs to require listings exclusively for SLTDA-licensed operators, with visible "SLTDA Licensed" badges.			x	x	x	x	x	x	x				Regulatory / Market access conditionality	SLTDA; OTAs; Ministry of Tourism
			Establish structured cooperation with Immigration, Police and relevant authorities for targeted joint inspections of repeat offenders.							x	x	x	x	x	x	Enforcement / Inter-agency coordination	SLTDA; Immigration Dept.; Police; Local Authorities
			Create secure and anonymous reporting channels for tourists and operators to flag unlicensed activities.					x	x	x	x					Regulatory / Transparency	SLTDA; ICTA
			Strengthen digital linkages between IRD, Customs and SLTDA to track repeat violations.					x	x	x	x	x	x			Digital / Enforcement	SLTDA; IRD; Sri Lanka Customs
Strengthen Local Value Chains	Step 4 – Expand Competitivenes s, Local Value Chains and Quality	Reduce import dependency and improve competitiveness of formal operators by improving visibility, coordination, and commercial linkages within domestic supply chains.	Develop voluntary procurement guidelines promoting local sourcing in tourism supply chains, aligned with seasonality and quality standards.			x	x	x	x							Coordination / Market facilitation	SLTDA; Industry Associations (THASL, SLAITO); Ministry of Agriculture
			Prioritise high-return import substitution categories (e.g. processed foods, wellness inputs, FF&E) based on leakage analysis and supplier readiness (see cross-cutting actions)		x	x	x									Analytical / Strategic prioritisation	SLTDA; NEDA; Ministry of Tourism; Inland Revenue Department; Sri Lanka Customs; large tourism operators; private wholesalers and distributors; development partners (technical support)
			Facilitate structured commercial linkages between tourism operators and domestic suppliers through partnerships with NEDA, private wholesalers, and hotel supply networks, reducing reliance on ad hoc public catalogues.				x	x	x	x	x	x	x			Market facilitation / PPP coordination	SLTDA; NEDA; Ministry of Tourism; private wholesalers and distributors; hotel supplier networks; large tourism operators; industry associations (THASL, SLAITO, ASMET)
			Provide concessional financing and co-financing for SME upgrading of production quality and scale (e.g. GAP certification, sustainable packaging).					x	x	x	x	x	x	x	x	Financial / Incentive-based	Ministry of Finance; Banks; Development Partners; SLTDA
			Extend the "Made in Sri Lanka" trademark to tourism-linked products (spa oils, herbal cosmetics, crafts, gastronomy).						x	x	x	x	x	x	x	Branding / Regulatory	NEDA; National Intellectual Property Office; EDB; SLTDA
		Reduce import inefficiencies and improve sustainability	Establish a Sustainable Hospitality Supply Platform (SHSP) as a structured quarterly public–private coordination mechanism to address systemic supply		x	x	x	x	x	x	x	x	x	x	x	Institutional coordination / PPP platform /	SLTDA (Lead); Ministry of Tourism; Ministry of Finance; Sri Lanka Customs; SLSI; Hotel

Activities	Steps (Sequencing)	Associated Objectives	**Validated Key Actions**	Timing (Quarter)												Nature of action	Supporting institutions
				1	2	3	4	5	6	7	8	9	10	11	12		
		of hospitality supply chains while maintaining competitiveness.	chain bottlenecks, with priority given to sustainability, green transition, and import efficiency.													Sustainability & competitiveness	Suppliers Association (HSA); THASL; SLAITO; NEDA; EDB; Department of Ayurveda (where relevant)
Enhance Stakeholder Sustainability (Ayurveda Focus)	Step 4 – Expand Competitivenes s, Local Value Chains and Quality	Protect credibility and professionalise Ayurveda as a tourism segment.	Establish a formal coordination mechanism between SLTDA and the Department of Ayurveda, whereby the Department of Ayurveda defines and validates standards for Ayurveda and Ayurveda-branded spa services, and SLTDA conditions tourism certification and market access on compliance with these standards.	x	x	x										Regulatory / Institutional coordination	Department of Ayurveda; SLTDA; Ministry of Health
Marketing, Coordination & Capacity Building	Step 4 – Expand Competitivenes s, Local Value Chains and Quality	Improve service quality and workforce readiness.	Reform vocational training institutions (e.g. SLITHM) so that application hotels operate commercially and provide real-world operational experience.		x	x	x									Institutional reform / Capacity building	SLITHM; Ministry of Tourism; Ministry of Education; Private Sector
Boost Formalisation and Enforcement	Step 5 – Apply Graduated Deterrents	Make compliance non-negotiable after fair opportunities have been provided.	Introduce a graduated penalty framework (fines, public listing in SLTDA registry, licence suspension, deportation of foreign-run unlicensed operators).						x	x	x					Enforcement / Regulatory	Ministry of Tourism; Attorney General's Department; SLTDA; Inland Revenue Department; Immigration Department; Police
			Public disclosure of enforcement actions through SLTDA registries and official channels.								x	x	x	x	x	Transparency / Enforcement	SLTDA; Government Information Dept.
Cross-Cutting	All Steps	Ensure accountability, inclusion and demand-side alignment.	Initiate an in-depth leakage assessment and baseline study during the early implementation phase, building on this Rapid Assessment, to refine indicators and establish realistic benchmarks before full KPI tracking: (number of registered operators, % OTA listings compliant, % SMEs sourcing locally, share of digital transactions).	x	x	x										Monitoring & Evaluation	SLTDA; Ministry of Tourism; Development Partners
			Embed gender and inclusion safeguards, with targeted support for women- and youth-owned SMEs.		x	x	x	x	x	x	x	x	x	x	x	Social / Inclusion policy	SLTDA; Ministry of Women & Child Affairs; Development Partners
			Implement visitor engagement under the "Book Licensed, Buy Local, Choose Sustainable" campaign.			x	x	x	x	x	x	x	x	x	x	Communication / Demand-side incentive	SLTDA; SLTPB; OTAs

7.2. Prioritization and Dependencies

The Priority Level and Dependencies table below consolidates the leakage analysis into a strategic framework for action. It links the proposed measures to their expected financial impact, practical feasibility, and the critical preconditions for implementation. This approach enables policymakers to focus on interventions that combine high potential returns with achievable execution pathways.

Across the three assessed sectors—accommodation, inbound tour operators, and wellness & spa—annual leakages are estimated at USD 956 million, representing around 43,1% of the USD 2.43 billion in visitor expenditures captured by these segments (out of Sri Lanka's total USD 3.1 billion tourism economy). Of this,

- USD 819.8 million is lost through operational leakages,
- USD 51.4 million through profit repatriation, and
- USD 84.8 million through informal sector activity.

By sub-sector:

- Inbound package distribution (incl. licensed DMCs) reflects the largest absolute leakage at USD 536.8 million (36.4%). Importantly, most of this amount is embedded in supplier procurement from high-leakage segments (notably accommodation and transport) and in commissions paid to external intermediaries; profit repatriation within licensed inbound operators is relatively limited (USD 1.9 million), while informal offshore B2C models add an estimated USD 39.8 million in additional losses.
- Accommodation loses USD 349.1 million (34.6%), of which USD 264.2 million is operational (import-intensive F&B, linens, equipment), USD 39.9 million is profit repatriation, and USD 45.0 million arises from informal rooms.
- Wellness & spa is smaller in scale but shows the highest relative leakage at 50.8% (total USD 70.2 million), including USD 60.6 million operational and USD 9.6 million in profit repatriation (no robust estimate for informal wellness).

Crucially, much of what we observe reflects procurement structures rather than operator inefficiency. High import content, foreign platforms, and upstream margins mean a significant share of leakages sits outside the direct control of operators. Reducing these losses therefore requires targeted supply-chain upgrades, compliance-linked distribution rules, and incentives for local sourcing and traceable payments, not just asking operators to "do better."

Each measure is assessed based on three interrelated dimensions:

1. Expected Impact – The estimated magnitude of leakage reduction, drawing on sector-specific data. This includes direct financial retention (USD) and indirect benefits such as improved competitiveness, formalization, and resilience of supply chains.
2. Feasibility – An evaluation of the practical likelihood of implementation given current governance strengths and weaknesses, the legal framework, corruption risks, availability of skilled labour, and alignment with tourism market trends.
3. Dependencies – The critical preconditions for successful implementation, which may include legislative changes, infrastructure development, interministerial coordination, or private sector buy-in.

By combining these dimensions, the table allows policymakers and stakeholders to clearly identify which interventions offer the highest return on effort, which can be implemented immediately, and which require phased preparation. This prioritization is essential in a context where resources—both financial and institutional—are limited, and where sequencing reforms can accelerate results.

The proposed reforms would work more effectively with a dedicated, multidisciplinary project unit hosted by SLTDA for the initial 2–3 years. While feasible given SLTDA's existing financial reserves, its establishment would require political commitment, a clear mandate, and recruitment of approximately 30 staff with technical expertise in IT systems, legal enforcement, licensing, and stakeholder coordination. This concentrated capacity would accelerate implementation, reduce inter-agency friction, and help manage the large influx of formalisation cases expected in the early phases.

The following table translates the earlier Key Recommendations (Chapter 5) and Strategic Interventions (Chapter 6.1) into a concrete set of Proposed Actions, prioritised by urgency and mapped against their key dependencies. Whereas Chapter 5 outlined *what* reforms are needed and Chapter 6.1 explained *how* they can be phased, Table 15 summarises these measures in an implementation-oriented format. This ensures consistency across the report while helping policymakers see which interventions should come first, which require legal or institutional changes, and where cross-sector coordination is most critical.

Table 18 - Priority Level and Dependencies

Priority Level	Actions	Dependencies
High Priority	Single-window licensing & fee reduction → *corresponds to Chapter 5 Key Recommendation on simplifying registration, and Chapter 6.1 Step 1 Strategic Intervention on removing barriers.*	Legislative changes (SLTDA Act amendments, 13th Amendment alignment); digital platform upgrade; reconciliation with Registrar of Companies & Provincial Councils
High Priority	OTA compliance requirement (listings only for licensed operators, VAT enforcement) → *builds on Chapter 5 Key Recommendation on OTA regulation, and Chapter 6.1 Step 3 Strategic Intervention on partnering for enforcement.*	Negotiations with OTAs; regulatory support; integration of OTA data with Inland Revenue Department
High Priority	Procurement guidelines for local sourcing (F&B, wellness, linens, etc.) → *reflects Chapter 5 recommendation on SME integration, and Chapter 6.1 Step 4 Strategic Intervention on expanding access and quality.*	Coordination with industry bodies (hotels, licensed inbound operators, spas); SME readiness; use of "Made in Sri Lanka" trademark framework
High Priority	Ayurveda certification & name protection → *linked to Chapter 5 recommendation on sustainability and standards, and Chapter 6.1 Step 4 integration of Ayurveda certification.*	Legal framework for Ayurveda as a protected certification; clinical validation protocols; alignment with insurance sector; integration with destination branding
Medium Priority	Concessional financing for SME quality upgrades (e.g., GAP certification, packaging, sustainable equipment) → *This builds on Chapter 5 Key Recommendation to support SME upgrading and financing, and is operationalised in Chapter 6.1 Step 4 on expanding access and quality (SME financing, local sourcing).*	Partnerships with banks and donor agencies; fiscal incentives for value-addition machinery; monitoring to ensure local content
Medium Priority	Sustainability and service quality integration (including workforce inclusion, gender-sensitive policies) → *This reflects* Chapter 5 Key Recommendation to improve sustainability standards and inclusion, and *is further*	Standards development; TVET and SLITHM curriculum reform; certification bodies; workforce training providers

	advanced through Chapter 6.1 Step 4 on expanding access and quality (service quality, workforce inclusion).	
Medium Priority	Progressive execution of a National Tourism Marketing Strategy, building on early marketing alignment and initial market intelligence tools deployed during the short-term phase→ *This aligns with* Chapter 5 Key Recommendation to expand data and market intelligence, and *is translated into practice under* Chapter 6.1 Step 2 on facilitating compliance (sentiment analysis tools).	Initial IT investment; SLTDA capacity; private-sector co-financing; data-sharing agreements with OTAs, banks, and digital platforms
Medium-Low Priority	Graduated enforcement penalties (fines, suspensions, deportations) → *This corresponds to* Chapter 5 Key Recommendation to introduce corrective penalties, and *is implemented through* Chapter 6.1 Step 5 on applying deterrents (graduated penalties).	Strengthened legal enforcement powers; safeguards against harassment and corruption; transparent reporting protocols
Medium-Low Priority	Public disclosure of non-compliance[4] → *This supports* Chapter 5 Key Recommendation to increase transparency in enforcement, and *is delivered under* Chapter 6.1 Step 5 on applying deterrents (public disclosure).	Government communications strategy; SLTDA online registry updates; reputational safeguards for fairness

In parallel to the actions outlined above, continued policy dialogue with the Inland Revenue Department will be important to explore options for improving VAT capture in digital tourism transactions. Improved licensing traceability and clearer identification of compliant operators provide a necessary foundation for such discussions, even where implementation extends beyond the tourism sector's direct mandate.

While the table provides a static view of priorities, the below Gantt chart translates these into a dynamic, time-bound action plan. It sequences interventions according to their dependencies and anticipated rollout timelines, ensuring that quick wins are achieved early while laying the groundwork for more complex, long-term reforms. The chart visually distinguishes between immediate, medium-term, and long-term measures, allowing decision-makers to monitor progress and adjust sequencing as needed.

Table 19– Tourism leakage reduction action plan timeline

Action	Lead & Involved Agencies	Immediate (6–12 months)	Medium-Term (1–3 years)	Long-Term (3–6 years)
Single-window licensing & fee reduction	SLTDA, Inland Revenue Dept., Registrar of Companies, Provincial Councils, ICTA			
OTA compliance requirement	SLTDA, Inland Revenue Dept., OTAs, Ministry of Finance			
Procurement guidelines for local sourcing	Ministry of Tourism/SLTDA, Hotel Association (THASL), DMCs, Spas, Ministry of Agriculture			
Ayurveda certification & name protection	Ministry of Health/Dept. of Ayurveda, SLTDA, Insurance Regulatory Commission			

[4] While public disclosure can create reputational pressure and reinforce the value of compliance, it is also a sensitive measure with potential privacy and fairness implications. Before implementation, this option should be further studied and discussed with stakeholders, with strong safeguards in place to avoid unintended consequences such as reputational damage from false reporting, harassment, or disproportionate exposure of smaller operators.

Concessional financing for SME quality upgrades	Ministry of Finance, SLTDA, Banks, Donor Agencies	
Sustainability & service quality integration	SLTDA, TVET, SLITHM, Ministry of Labour	
National tourism market intelligence system	SLTDA, ICTA, Central Bank, OTAs	
Graduated enforcement penalties	SLTDA, Police, Immigration, Provincial Councils	
Public disclosure of non-compliance	SLTDA, Ministry of Justice, Data Protection Authority	

In combining both tools—the priority/dependency table and the Gantt chart—this plan ensures a coherent, stepwise approach that aligns strategic ambition with operational reality. The result is a roadmap that not only identifies "what" should be done, but also "when" and "under what conditions" each action will deliver its intended impact. Unless otherwise stated, SLTDA would take the lead in implementing the actions listed above. However, most interventions require coordination with other agencies, notably the Inland Revenue Department, Ministry of Health (Ayurveda certification), Ministry of Finance (concessional financing), and ICTA (digital systems). For clarity, SLTDA is the lead actor across all actions, but implementation success depends on strong multi-agency collaboration.

To conclude, Stakeholder validation confirms that the effectiveness of this action plan depends less on the number of regulations introduced, and more on the credibility, simplicity, and economic logic of the pathways offered to operators.

Conclusion

Reducing economic leakages in Sri Lanka's tourism sector demands a whole-of-value-chain approach that addresses structural weaknesses, incentivises formalisation, and strengthens domestic supply capacities. This assessment confirms that leakages are not simply the result of operator inefficiency, but are embedded in upstream supply chains, foreign-controlled distribution channels, and widespread informality.

The recommended interventions—sequenced to deliver early wins in formalisation and procurement substitution—are designed to maximise domestic value retention while enhancing competitiveness, inclusivity, and resilience. By simplifying compliance, enforcing standards fairly, and linking market access to regulatory adherence, Sri Lanka can recapture substantial lost revenues. Strengthening local value chains and expanding digital payment adoption will further anchor tourism income within the economy.

If implemented with sustained political commitment, cross-ministerial coordination, and active private-sector engagement, these measures could recover hundreds of millions of dollars annually, create fairer competition, and position Sri Lanka as a leader in high-value, low-leakage tourism growth in the region.

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List of tables

List of figures

Annexes

Annex 1 - List of Institutions and Stakeholders Consulted

- Hotels
    - Cinnamon Grand Hotel, Colombo
    - Waluwwa Boutique Hotel, katunayaka
    - Le Grand Boutique Hotel, Galle
    - Charlies Hotel, Galle
    - Galle Face Hotel
    - Hotel Tree of Life
    - Hotel Eden Garden
    - Galkadawala Forest Lodge, Habarana
    - Jetwing Hotels (Kanchana Nanayakkara, Director, HR and Sanjeewa Anthony,Executive Director) (THASL also represented by Sanjeewa)
- Suppliers
    - Celsius Bedding (Linen supplier)
    - Lion Brewery (Est. 1881) (Beverages supplier)
    - East West Food Pvt Ltd (F&B supplier)
    - H Don Carolis and Sons (Hotel furnitures supplier)
- Official bodies
    - Central Bank of Sri Lanka
    - Board of Investment (Bureau of investment / Bureau of promotion)
    - Import and Export Control Departments
    - Sri Lanka Customs
    - Inland Revenue Department
    - Export Development Board
    - Deputy Minister of Tourism (Prof. Ruwan Ranasinghe)
- Wellness
    - Aathraya Ayurveda Ashram
    - Siddhalepa (Asoka Hettigoda)
- Inbound operators
    - President, SLAITO
    - Jetwings
    - Atiken Spence travel
- Others
    - Country Coordinator, Green Destinations
    - Representative of the president, ASMET

Annex 2 - Recognition of Ayurveda treatments by insurance companies

What Insurance Companies Would Need

- Clinical validation & standardisation – Insurers generally require evidence of efficacy, safety, and standard protocols for any treatment they reimburse. For *Ayurveda*, this would mean establishing national treatment protocols and clinical documentation systems that insurers can rely on.

- Clear licensing & quality control – Insurers will need assurance that all covered providers meet recognised certification standards (e.g., SLTDA licence + national Ayurveda board certification).
- Cost transparency – Reimbursement systems require clear, standardised pricing for eligible treatments.

Feasibility in the Short Term

- Short term (1–3 years): Feasibility is low–medium because national standards, clinical protocols, and a recognised registry would need to be in place first. This could be piloted with domestic insurers targeting Sri Lanka's growing middle and upper-income market.
- Medium term (3–5 years): Higher feasibility if Sri Lanka creates an *Ayurveda Clinical Validation Framework* and aligns with WHO Traditional Medicine benchmarks.
- Immediate wins could include coverage for *Ayurveda* wellness check-ups or preventive care packages as add-ons to existing domestic health plans.

Dependence on International Recognition

- Many *Ayurveda* treatments are considered "complementary or alternative medicine" in Europe, North America, and Australia — meaning insurers in those countries often won't cover them unless recognised by national health authorities.
- This means international coverage will largely depend on:
    - Acceptance by medical boards in source markets.
    - Bilateral agreements or recognition under WHO Traditional Medicine frameworks.
    - Evidence from peer-reviewed studies showing measurable health outcomes.

Table 20 – Comparative positioning – Wellness tourism

Destination	Core Wellness Brand Positioning	Key Strengths	Limitations / Gaps	Implication for Sri Lanka
Sri Lanka	*Authentic Ayurveda heritage with >600 endemic medicinal plants; holistic mind-body-spirit philosophy*	Unique biodiversity; deep traditional knowledge; potential integration with yoga, meditation, and cuisine; smaller scale allows personalised experiences	Fragmented sector; limited global branding; colonial-era policy legacy; lack of integration between tourism and health policy	Strong potential to brand Ayurveda as an authentic, premium wellness product, leveraging biodiversity and heritage to differentiate from "spa-focused" competitors
India	*Global Ayurveda leader; positioned as origin country*	Strong brand recognition; government-led promotion (Ministry of AYUSH); integration with yoga tourism; established export of Ayurvedic products	Large, less personalised experiences; industrialisation of Ayurveda can reduce perceived authenticity	Sri Lanka can offer a "purer" and more personalised Ayurveda, emphasising endemic plant diversity and intimate treatment environments
Thailand	*Luxury spa and medical wellness hub*	Strong marketing; world-class hospitality infrastructure; integration with medical tourism; wide international accessibility	Lacks deep indigenous medical heritage equivalent to Ayurveda; relies heavily on imported concepts and fusion therapies	Sri Lanka can outcompete by emphasising authenticity and depth of tradition, not just luxury
Bali (Indonesia)	*Yoga, spirituality, and wellness retreats in a tropical setting*	Strong association with spirituality, nature, and "mindfulness tourism"; attractive to long-stay Western wellness travellers	Limited medical tradition; mostly wellness retreats rather than therapeutic treatments	Sri Lanka can position Ayurveda as a science-based, therapeutic wellness option with deeper medical value than Bali's primarily lifestyle-focused retreats