

**Performance Audit on contribution of Tourism  
Development Areas and Tourism Development Projects to  
the Tourism Industry**



**Report No: TIP/A/SLTDA/02/22/PA**



**National Audit Office**





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## **01. Executive Summary**

The foreign exchange that Sri Lanka receives from the tourism industry is more important with the current economic crisis, and in order to increase the foreign exchange earnings, the role of policy planning related to the tourism industry and other related industries, facilitation for implementation, formularization of the industry, regulation, recognition of tourism development areas and promoting facilities and services are carried out by the Tourism Development Authority as per the Tourism Act No.38 of 2005.

The primary objective of this audit was to evaluate the performance of the development projects implemented by the Tourism Development Authority to boost the tourism industry, where the performance of 14 tourism development areas at various times from 1987 to 2019 announced by the Authority and tourism development projects in Yala, Kalpitiya, Kutchchaveli, Dedduwa and Pasikuda areas were evaluated.

Accordingly, it was observed that tourism development areas had not been identified after the year 2019, regulations had not been prepared related to tourism development areas and tourist attraction places had not been identified according to the Act, infrastructure facilities including other physical facilities such as building tourist information centers for tourists in tourism development areas, access roads, electric lighting systems on both sides of the roads, viewing rooms, water facilities, restaurants, parking slots, sanitary facilities etc. had not been established and enough attention had not been paid to ensure tourist safety, action had not been taken to implement a program involving the private sector after evaluating the tourism activities and business opportunities that can be carried out in the tourism development areas and fruitless / ineffective development expenses had been incurred when providing facilities in the tourism development areas on the basis of direct allocations of the authority and jointly with the relevant institutions, the method of selecting the institutions for leasing of Kalpitiya islands was not clear, rent had not been recovered on time, 9 to 11 years period had been incurred for directing Kalpitiya lands for investment activities, lessees had not been adhered to the agreements, the environmental certificate had not been obtained by the investors related to the Yala area, the Yala construction method was not green, tourism development activities had

not been carried out as planned, the projects had not been properly monitored and had been paid insufficient attention to the allocation of lands for the projects and unauthorized access had not been prevented.

As the remedies for the above observations, according to Section 26 (1) of the Tourism Act No. 38 of 2005, the declaration as a Tourism Development Area should be made on the recommendations of the Authority and according to Section 26 (3) of the Act, orders should be made specifying the tourism activities, commercial and other activities that can be carried out within a Tourism Development Area and attraction places that attract tourists should also be included in it. Further, sufficient attention should be given to the establishment of new facilities or improvement of existing facilities in relation to the identified tourism development areas and the development projects carried out jointly with the relevant institutions and projects carried out on the basis of the direct financial allocation of the Authority in relation to the establishment of facilities in the tourism development areas should be closely monitored and made effective for the increase of tourism facilities. Furthermore, when leasing a land under tourism development projects, investors should be selected according to a formal system and the Authority should make adequate intervention for the problems related to the residents of the leased lands, problems related to obtaining approvals, problems of submitting the investment application, etc., faced by the investors. Adequate plans should be prepared and feasibility studies should be carried out regarding the investment property, as well as the development activities carried out by the investors on the leased properties and their maintenance should be adequately monitored and proper prompt action should be taken to collect the arrears. Action should be taken to increase facilities and attraction for tourists by maintaining good coordination with other government agencies, efficient use of the underutilized investment properties for investment purposes, cancel investment property contracts that have not been implemented according to the agreements and take legal action. Losses should be recovered, investors should be monitored whether they have obtained the relevant certificates and the Authority should take action to allocate investment property for tourism development projects and prevent unauthorized access to lands. Thereon, tourism development areas and tourism development projects could be contributed for the improvement of Tourism in Sri Lanka.

## 02. Introduction

### 2.1 Background

The tourism industry, which adds the third largest export income to the national economy, is a unique and strategically important sector for Sri Lanka, which promotes direct foreign exchange opportunities by creating many direct and indirect employment opportunities. There were 2.4 million and 1.9 million foreign tourists visited Sri Lanka in 2018 and 2019 respectively. Although the number of foreign tourists who had arrived in 2020 and 2021 had dropped to 507,704 and 194,495 respectively, it had improved to 719,978 in 2022. The details are shown in the diagram below.

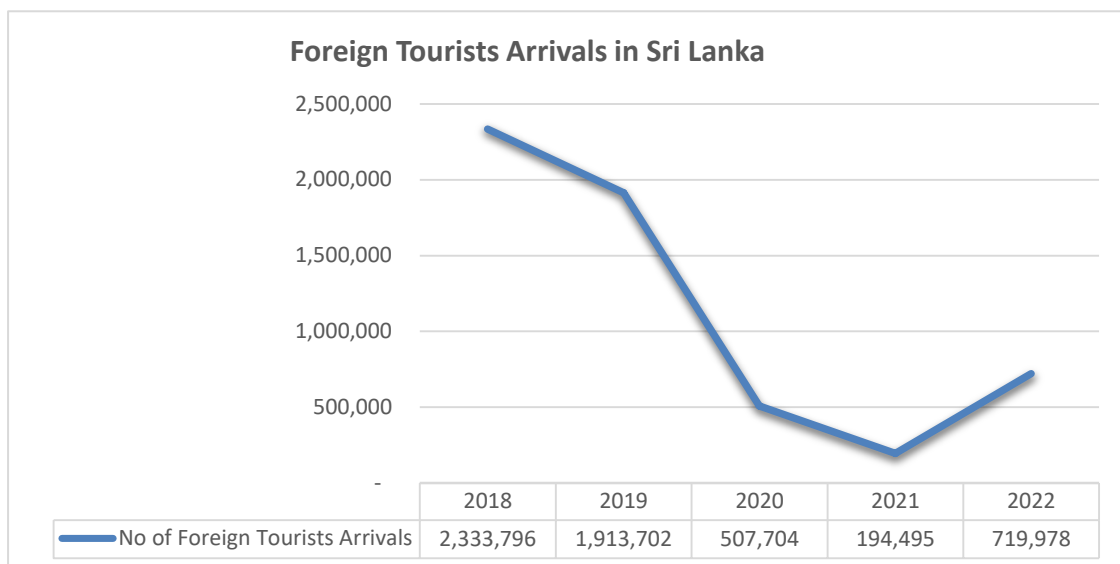


Figure 01 - Tourists arrival in the year under review and four preceding years

Source - Sri Lanka Tourism Development Authority

An income of Rs.711,961 million had been collected from tourism industry in 2018, but in the year 2019 it had been decreased upto Rs.646,362 million. In the year 2020, that income had been Rs.124,189 million by decreasing 80.78 percent or Rs.522,173 million. In the year 2021, that income had been further decreased to Rs.100,620. However, that income had been increased upto Rs.362,426 in the year 2022.

The details are shown in the diagram below.

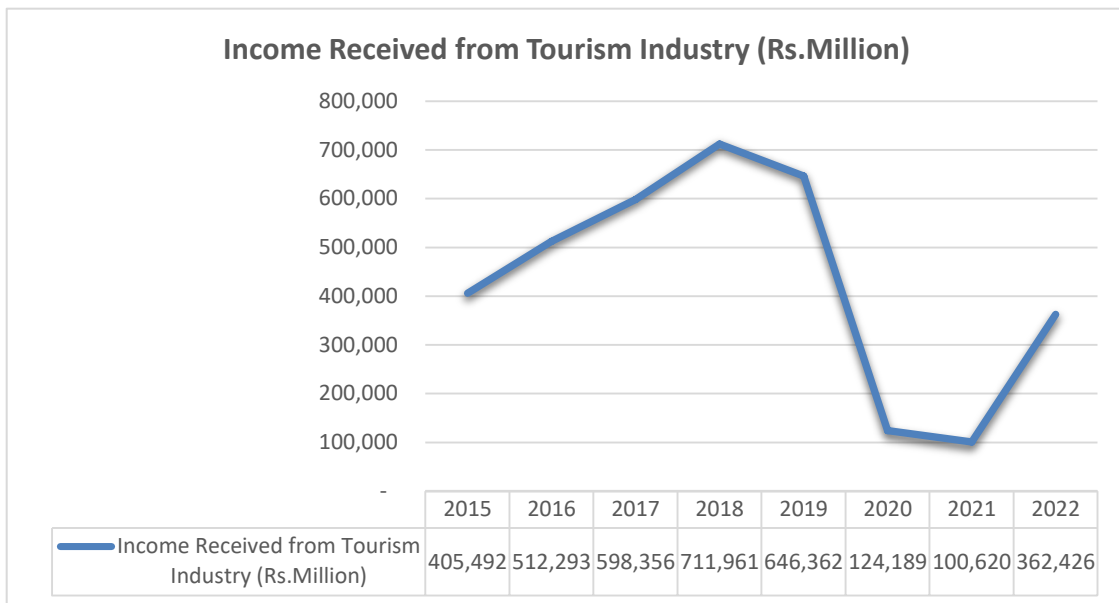


Figure 02 - Income from tourism industry

Source - Sri Lanka Tourism Development Authority

The foreign exchange income received from the tourism industry in the year 2019 had been decreased upto USD 3,606.9 million comparing with the same income received of USD 4,380.6 million in 2018. The same income had been further decreased upto USD 682.5 million and USD 506.9 million in 2020 & 2021 respectively. Nevertheless, that income had been increased upto USD 1,136.3 million in the year 2022 .

However, due to the the Easter attack in 2019 and Covid pandemic situation in 2020, which pushed the entire world into a severe economic crisis, confirming that the common conditions faced in the field of tourism such as volatility , uncertainty , complexity and ambiguity Covid epidemic situation, the tourist arrivals which showed a continuous growth in the years 2018 and 2019 had almost completely weakened in the years 2020 and 2021. However, some improvement in this situation had been shown in the year 2022.

According to the Tourism Strategic Plan (TSP 2017-2020) prepared covering the period 2017-2020 for tourism sector in Sri Lanka, the vision had been that " **By the year 2025, Sri Lanka will be recognized as a place that offers unforgettable, authentic and diverse tourism experiences.** ", but the next period from 2022 to



2025 it had been moved to a " **Strategic Recovery Plan** " to save the industry from the negative impact of the Covid pandemic on all sectors of the tourism sector.

There had been a room for further development of Sri Lanka's tourism industry with a lot of untapped potential by increasing the number of tourists, investment projects and international interest.

Accordingly, necessary environment should be created for the recognition of Sri Lanka as a tourist destination both locally and internationally in order to increase the number of tourists, investments and employment opportunities in the tourism industry and thereby make a unique contribution to the national economy and Sri Lanka Tourism Development Authority has been established to facilitate the planning and implementation of policies related to the tourism industry in Sri Lanka and the relevant details are as follows.

### **2.1.1 Establishment of Sri Lanka Tourism Development Authority**

The Sri Lanka Tourism Development Authority had been established by the Tourism Act No. 38 of 2005 to vest the said authority with such powers as are necessary for facilitating the planning and implementation of the policy relating to the tourism industry and other related industries; to provide for the regulation and monitoring of the industry; to repeal the Ceylon Tourist Board Act, No. 10 of 1966 and to repeal certain provisions of the Tourist Development Act, No. 14 of 1968; and to provide for matters connected therewith or incidental thereto. In addition, the role of promotion, planning and encouragement of tourism facilities and services in tourism development zones as well as the regulation, control, maintenance and operation of tourism facilities and services in tourism development zones had been assigned to the Authority by the Tourism Development (Amendment) Act No. 14 of 1968 dated 22 January 1987.

#### **2.1.1.1 Vision of Sri Lanka Tourism Development Authority**

Acknowledging Sri Lanka as the best island in the world for unforgettable, authentic and diverse experiences.

### **2.1.1.2 Mission**

To be a high-value destination that reflects Sri Lanka's natural and cultural heritage, is socially inclusive and environmentally responsible, and offers extraordinary experiences that bring economic benefits to communities and the country.

### **2.1.1.3 The objectives of the Authority as per the Act**

- a) to Develop Sri Lanka as a tourist and travel destination both in Sri Lanka and abroad;
- b) to advise the Minister in charge of the subject of Tourism on matters relating to travel and tourism industry, within the policy formulated by the Cabinet of Ministers, in relation to this sector;
- c) to provide guidance to the Sri Lanka Tourism Promotion Bureau to develop, promote and market Sri Lanka as a tourist and travel destination both in Sri Lanka and abroad;
- d) to provide guidance to the Sri Lanka Institute of Tourism and Hotel Management to undertake human resource training and development activities;
- e) to work towards the enhancement of the tourism and travel sectors in order to secure a contribution for the expansion and development of Sri Lanka's economy;
- f) to develop and promote adequate, attractive and efficient tourist services, inclusive of the hospitality industry in a sustainable manner;
- g) to license and accredit tourist enterprises in order to develop, enforce and maintain locally and internationally accepted standards in relation to the tourism industry and other related industries;
- h) to encourage persons or bodies of persons in the private sector to participate in promotion of the tourism industry and the promotional and training activities connected with such industry;
- i) to do all such other acts as may be necessary or conducive to the attainment of all or any of the above objectives.

### **2.1.1.4 Functions of the Authority as per the Act**

- to act with the concurrence of the Minister, as an agent of the government for the transaction of business connected with the tourism or travel industry;

- to engage in, assist in or promote the improvement of facilities being provided for tourists to Sri Lanka and to develop Sri Lanka as a tourist destination;
- to establish, maintain and operate services connected with the tourism industry and to coordinate the activities of the persons providing such services for tourists;
- to prescribe, regulate, maintain and enforce the standards to be maintained by the different enterprises of the tourism and travel industry;
- to license the different enterprises, on criteria to be determined by the Authority and to prescribe the terms and conditions applicable to the same;
- to acquire, hold, take on lease, hire, pledge or otherwise dispose of any movable or immovable property: provided however, immovable property may be disposed of only with the prior written consent of the Minister;
- to engage consultants both local and foreign, whenever the need to do so arises for the efficient discharge of its functions;
- to liaise with the Provincial authorities whenever the need to do so arises on any matter relating to the tourism industry;
- to promote and assist in the development of support industries and services;
- to establish companies or other bodies in order to facilitate the achievement of the objectives of the Act;
- to make rules in respect of matters specified in the Act;
- to carry on the business of providing transport facilities to persons visiting tourist attractions in Sri Lanka;

## **2.2 Audit objective and criterias**

### **2.2.1. Audit objective**

The purpose of this audit is to evaluate the performance of the development projects implemented by the Tourism Development Authority to boost the tourism industry.

### **2.2.2. Audit criteria**

	<b>Sub-audit objective</b>	<b>Criteria</b>	<b>Source</b>
1.1	Evaluating the efficiency and effectiveness of identifying and	1.1.1 The Minister of Tourism has been authorized to declare a certain area as a " <b>Tourism</b>	Section 26(1) of the Tourism Act No. 38 of 2005

developing tourism  
development areas .

**Development Area "** from  
time to time by means of an  
order published in the  
Gazette on the  
recommendations of the  
Authority.

- 1.1.2 Confirming the need to be identified as a tourist area and include recommendations and report to the minister by the authority Section 26(1) of the Tourism Act No. 38 of 2005
- 1.1.3 Strategic Plan 2017 – 2020 Chapter No. 4 has identified tourism development areas. Strategic Plan 2017 – 2020 Chapter No. 4
- 1.1.4. Attractive places identified by physical inspection Tourism Act No. 38 of 2005
- 1.1.5 Tourism destinations have been identified as per Chapter No. 4 of the Strategic Plan 2017 – 2020 Strategic Plan 2017 – 2020 Chapter No. 4
- 1.1.6 Section 26(3) of the Act, orders can be made specifying the commercial and other activities of tourism that can be carried out within an area and including the historical places or places of environmental interest that can be called tourist attractions within that area in those orders. Section 26 (3) of the Act

- 1.1 .7 Facilities to be provided for tourists in tourism development areas. Section 2 of Tourism Development Act No. 02 of 1987 (Amended), Section 26(3) of Tourism Act No. 38 of 2005, Strategic Plan 2017 – 2020 Chapter No. 4, Tourism Strategy No.09 of Strategic Action Plan (2020 – 2023)
- 1.1 .8 Evaluation of the performance of the development costs carried out jointly with the relevant institutions based on the direct financial allocation of the authority regarding the establishment of facilities in the tourism development areas . Board Approvals, Action Plan 2020, 2021, 2022
- 1.2 Evaluation of performance and progress of development projects
- 1.2.1 Identification of suitable lands, acquisition process and allocation for projects Efficiently and effectively Land Grant ( Special Provisions) Act No. 43 of 1979, Authority 460 of Land Acquisition Act No. 09 of 1950, Section 27(1) of Tourism Act No. 38 of 2005, Cabinet Decisions, Feasibility Study Report, Master Plans

- 1.2.2 Project identification, attraction and selection of investors. Cabinet Decisions, Board Decisions, Handbook for Investor Selection, Investor Approval Process, Project Proposal Evaluation Committee Recommendations, Master Plan, Strategy No. 2.2 of Strategic Plan (2022 – 2025), Strategy No. 2.5 of Strategic Plan (2020 – 2023)
1. 2. 3 Having identified infrastructure and other facilities to be developed in the project Master Plans, Action Plan (2020,2021,2022)
1. 2. 4 Lease of land to investors, implementation of projects by investors and supervision of Authority Master Plans, Leasing Agreements, Chapter No. 9.4 of Corporate Plan (2020 – 2022)
1. 2. 5 Being taken action in relation to lands leased out to investors but not implementing operational activities and lands not leased out. Board decisions, Terms of lease agreements

## 2.3 Audit Scope and Scope Limitation

The contribution to the progress of the tourism industry of the development projects implemented in the regions declared by the Authority as tourism development areas and on the lands owned by the Authority had only been evaluated in this audit. The performance of 14 tourism development areas announced by the Authority and development projects located in Yala, Kalpitiya, Kutchveli, Dedduwa and Pasikuda had been evaluated.

### Scope limitations

- i. Absence of a national policy related to the tourism industry.
- ii. Unable to identify whether there are areas that should be designated as tourist areas but have not been designated so far .
- iii. Insufficient data in travel destination notes .
- iv. Zoning plans have not been prepared for all areas
- v. Lack of proper expenditure reports related to tourism development areas
- vi. Absence of a prepared land register including all lands.
- vii. Inability to carry out due diligence on all investors selected for projects.
- viii. Absence of systematic method to determine tourist arrivals by area.

## 2.4 Audit approach

- a. According to Sections 6.1 (a) and (b) of the Tourism Act No.38 of 2005, proposed long-term goals and a four-year plan for tourism development should be prepared and submitted to the Minister, but this has not been done and the preparation of a national policy for the tourism industry has started from 2020 .By the end of 2022, it was in its final stage. Accordingly, it is essential to emphasize the need for national policies, goals and plans regarding the tourism industry, which is a quick and short-term way to rescue the country from the current severe economic crisis.
- b. An amount of 2.4 million and 1.9 million foreign tourists in 2018 and 2019 respectively had come to visit Sri Lanka and by the year 2020 and 2021, this situation had been reduced upto 507,704 and 194,495 respectively. Thereon, it is necessary to evaluate the contribution made by the development projects implemented in the regions declared as

tourism development areas and, in the lands, owned by the Authority to promote the attractive places of Sri Lanka as a destination.

- c. Even though they were declared as tourism development areas, it was revealed in the audit examinations conducted in the past years that the minimum facilities necessary to tourists were not available in those areas.
- d. A large amount of 5404 acres of land that can be used for development projects owned by the Authority since 2010 had not been leased out for development projects by the end of year 2022 and operations had not been commenced in many leased lands. Non-commencement of operations.

Due to the problems mentioned above, this audit had been done under the problem approach.

## **2.5 Audit Methodology**

The following procedures were followed in preparing this report .

### **2.5.1 Examination of Documents**

Scrutiny of the following documents subject to the matters mentioned in paragraph 2.3 above .

- a) Cabinet Memorandums and Cabinet Decisions
- b) Board Papers and Board Decisions
- c) Extraordinary Gazettes of the Democratic Socialist Republic of Sri Lanka
- d) Fixed asset records
- e) Construction Contract Agreements
- f) Assessment reports
- g) Procurement files
- h) Performance reports and financial statements
- i) Master Plans
- j) Strategic plans
- k) Marketing plans
- l) Lease Agreements/Service Agreements
- m) Documents exchanged by e-mail
- n) Payment vouchers and receipts etc



### **2.5.2. Other Examinations**

- a) Analytical analysis of the information received in writing and e-mail related to the said process.
- b) Discussion with relevant parties.
- c) Conducting physical examinations

### **2.6 Authority for Audit**

The audit was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018

### **3 . Detailed Audit Observations**

#### **3.1 Identification and Development of Tourism Development Areas**

##### **3.1.1 . Identification of Tourist Areas and Publicity through Gazette Notifications**

If an area is consisted with tourist attractive places suitable for local and foreign tourists to travel as their destination, the Minister will name the area as "Tourism Development Area" and publish it in the Gazette for the purpose of providing facilities, services and regulation for the tourists. Accordingly, from the year 1987 to 2005, 11 areas under Section 73(a) of the Tourism Development Act No. 14 of 1968 as amended by Act No. 2 of 1987 and after 2005, 3 areas are under Section 26 (1) of the Tourism Act No. 38 of 2005, had been published. Details are given in Annexure No. 01.

The following observations are made in this regard.

- (a) According to Section 26(1) of the Act, although the declaration as a tourism development area should be based on the recommendations of the Authority, none of the recommendations submitted to the Minister in relation to the 3 areas designated by the Authority after the year 2005 were submitted to the audit.
- (b) From the year 1987 to the year 2019, 14 Tourism Development Areas had been announced by the Minister through the terms published in the Gazette. From the year 2019 to the audited date of 30 September 2023, more than 03 years had passed, but the Authority had not identified and announced new tourism development areas.

##### **3.1.2. Formulation of Regulations related to Tourism Development Areas**

According to Section 26 (3) of the Tourism Act No. 38 of 2005, orders may be made specifying the tourism, commercial and other activities that can be carried out within a tourism development area, such orders had not been made for all the above 14 tourism development zones until 30 September 2023, which is the audited date.

### **3.1.3. Identification of Tourist Attractive Places in Tourism Development Areas**

As per Section 26(3) of the Tourism Act No. 38 of 2005, orders can be made specifying the tourism, commercial and other activities that can be carried out within an area and list the facilities within that area and historical places that attract tourists or places of environmental interest can also be included in those orders. However, in relation to the tourism areas of Kalpitiya, Kuchchaveli and Iranavila, which were announced after the Act came into force, as per the said section, such attractive places had not been included and only the borders had been included and the areas had been named. Such attractive places had not been mentioned in the 11 tourist areas that had been announced before the new Act came into effect .

### **3.1.4. Facilities to be established for Tourists in Tourism Development Areas**

As per Section 2 of the Tourism Development (Amended) Act No. 02 of 1987, the following are the functions of the Board of Directors in relation to tourism development areas.

- i) To promote, plan and encourage tourism facilities and services within tourism areas
- ii) Regulation, control, maintenance and operation of tourism facilities and services within tourism areas.

Eg: \*\*Other physical facilities including infrastructure

- Construction of tourist information centers, access roads, roadside lighting systems, viewing booths, water facilities, restaurants, car parks, toilets, changing stations and bathrooms in coastal areas, seating facilities

\*\* Tourist Security

- Establishment of tourist police units and necessary facilities for it, life safety units along the coast

The following observations are made.

(a) **Lack of attention for establishment of facilities**

It was not confirmed that sufficient attention had been given to the establishment of new facilities or the improvement of existing facilities in relation to the tourism development areas identified during the period from 2019 to 2023.

(b) **Pasikuda Tourism Development Area**

In the main plan prepared for Pasikuda Tourism Development Area in 2013, 39 facilities to be established were identified, of which only the sewage treatment system, water tank, resort office and the building with sanitary facilities were established. By September 2023, other facilities had not been established and among the established facilities, the building with sanitary facilities had also been left unused. Furthermore, there were difficulties in providing essential facilities such as regular access roads and a public car park, street lights, drinking water to the tourists coming to the area and it was observed that the animals that are constantly roaming in the area threaten the cleanliness of the area and the safety of the tourists. Due to the non-establishment of these facilities, the entrepreneurs involved in the tourism industry in that area had also faced obstacles to engage in the industry.

(c) **Kutchaveli Tourism Development Area**

Among the essential facilities to be created in relation to the Kutchaveli area in the main plan prepared in 2019 for the Kutchaveli tourism area and the project, it had been identified that the road system and water facilities should be improved. However, there was no formal road system and water supply in the area. Apart from this, it had been emphasised during the physical observation that there was not enough electricity supply for tourism projects in the area as well as other facilities required for tourists in the area. The attention of the Authority had not been focused on creating these facilities. Due to this, even though there are tourist attractions in the area, the arrival of tourists was at a minimum level. Also, there was an obstacle to attract investors to the area for tourism projects.

(d) **Dehiwala Mount Lavinia Tourism Development Area**

The bordered area of Urban Division No.18 of Dehiwala Mt.Lavinia Municipal Council was gazetted as a tourism development area on 12 March 1992 by the then Minister of Tourism and Rural Industries Development . In that region, the beautiful coastline from Dehiwala to Mt. Lavinia could be recognized as an attractive place of tourists.

The following observations are made in this regard.

- (i) During the physical inspection carried out by the audit in that area, it was appeared that no steps had been taken to provide facilities for the promotion of tourism in the region and accordingly the following problems could be identified.
- Absence of facilities such as Drinking water, toilets, bathroom facilities, changing room facilities for local and foreign tourists in the area
  - Lack of safe transfer method for tourists to cross the railway line towards the beach
  - Due to the absence of any electric light in the beach area, the tourists as well as the life-saving officers in the area are inconvenient in the evening.
  - Absence of facilities in the area for tourists to sit and take their food and drinks (Sunbed/Bench)
  - Non-availability of a public car park in the area for tourists coming in private vehicles to park their vehicles
  - It was observed that fishing activities had been engaged within the coastal line in an informal manner and they have not been restricted to a suitable place and provided the necessary facilities for that purpose.

- (ii) Although 30 years had been passed since this region was designated as a tourism development area, even the basic facilities required for this have not been established. The Tourism Development Authority, which is directly responsible for the development of the tourism sector, should look into it and establish the facilities directly or engaging the private sector. There was no attention on the necessity of developing such systems by engaging as a provider.
- (iii) Clean-up work in the coastal zone was also done under a project of a private organization, Sri Lanka Tourism Development Authority had not made the necessary interventions to provide facilities for that.
- (iv) The Authority had not taken steps to evaluate the tourism activities and business opportunities that can be carried out in the area, considering the importance of the area in terms of tourism and to prepare and implement a programme involving the private sector.
- (v) The intervention to provide necessary facilities for life saving units of the Department of Coastal Conservation and had not been made by the Authority.

**3.1.5 The development expenses made on the basis of the direct financial allocation of the Authority and jointly with the relevant institutions, in relation to the establishment of facilities in the tourism development areas.**

The following observations are made.

- (a) The Authority and the North West Provincial Council had jointly implemented a project for the construction of a tourist information and facility center (recreation center) in Kalpitiya tourism area, Madurankuliya, for which the Authority had spent a sum of Rs.6,771,807. Even though the building was constructed by 30 September 2023, it remained inactive without providing information and facilities to foreigners. The provincial council and the Authority had not worked to operate the center by providing the system of providing information to the tourists and the necessary equipment for the building until the date of the audit. Due to this, the tourists coming to the area had not been able to get the necessary information and facilities and the money spent by the Authority was not able to benefit the tourism sector.

- (b) The Authority and the Soranatota Local Authority had jointly started the Dunhidha Falls Public Facilities Development Project in February 2017 and expected to be completed in January 2018 with the aim of constructing 20 eco-friendly shops and sightseeing facilities in the Ella tourist area. For this a sum of Rs. 7,488,133 was estimated. By the time the project was expected to be completed, 10 shops had been built at a cost of Rs.2,864,289 and the project had been stopped. As the construction of the shops was not in standard, the rest of the shops had not been constructed. There were 5 shops under Dunhidha Project- Phase II at a cost of Rs. 2,350,000 was expected to be completed again in the year 2021, but it too had not been constructed by 30 September 2023, the date of audit. This was due to construction not in standard and lack of close supervision by the Authority. Thereon, the facilities covering the Ella area for tourists had not been provided.
- (c) Approval had been obtained through the Board of Directors Decision dated 28 October 2021 to allocate a total sum of Rs.22.44 million, Rs.5.61 million per unit for the construction of 04 no of Tourist police units in 04 areas for the establishment of a safe environment for tourists. An advance amount of Rs.1,120,000 had been paid for the tourist police unit building under construction in Mt. Lavinia Tourism Zone and the bill presented as the first interim payment of Rs.2,766,233 had been recommended to be paid. The construction of the building had not been completed by 30 September 2023, and the construction of other police units had not also been commenced. Although it was expected to establish police units at the local level and provide the necessary security to the tourists, it had not been possible to fulfill as planned.

## **3.2 Performance of Tourism Development Projects**

### **3.2.1. Kalpitiya Tourism Development Project**

Lands of 2056.73 acres belonging to 12 Kalpitiya islands had been transferred to the Authority under Section 02 of the Land Ordinance No. 08 of 1947 by the President of the Republic as free grants in the years 2010 and 2012. Details are given in attachment 02.

Master plan which had not mentioned a specific time period for the development of Kalpitiya town and projects relating to two islands (Palliyawatta and Muthuwal) consisting of 1,915.96 acres which had not been acquired by the Authority and had

not otherwise been assigned to the Authority and 08 No of Kalpitiya islands consisting of 1,845.48 acres which had been assigned to the Authority as free grants and the master plan for Vellai Islands composed of 58.74 acres dated 20 March 2012 had been prepared.

The following observations are made in this regard.

**(a) Attraction and Selection of Investors**

The lands had been leased out by the Authority pertaining to one island in Kalpitiya to a company in 2010, 03 islands in Kalpitiya to another company in 2011, another island to another company in 2020 and another 05 islands to another 05 companies including a company mentioned above. However, the selection method of two companies which had been leased out in 2010 & 2011 was not clear to audit.

**(b) Implementation of other facilities including infrastructure to be developed in the project**

A time period of 10-12 years had been gone after vesting the lands of 11 islands of Kalpitiya in 2010 and the lands of one island in 2012 as free hold lands by the President of the Republic. However, infrastructure facilities such as Jetty and Decks for tourists, Water Supply Schemes, Water Storage, centralized electrical Power plants, water treatment plants, waste and solid garbage refinery Machines, power generation Power plants ( solar power plants and the wind power plants ), waterfront development, public area lighting, desalination plants, power transmission stations, information centers, walkways had not been able to provide by the Authority as indicated in the Kalpitiya master plan.

**(c) Action Plan**

In the progress reports related to the action plan prepared for the years 2020, 2021, 2022, a sum of Rs.3 million, Rs.9.6 million, Rs.5 million financial allocation had been allocated respectively, within the Kalpitiya Island Resort Project, with the aim of developing an island resort with special features and increasing the number of hotel rooms. However, the funds had not been utilized to fulfill the development objectives till 30 November 2022, the date of audit. Details are given below.



Description	Financial Provision (Rs. Million)
<b>2020</b>	
Completion of design plans and construction supervision	0.2
Construction work	<u>2.8</u>
	<u>3.0</u>
<b>2021</b>	
Construction of site office building	9.0
Develop communication, feedback monitoring mechanism	0.5
Action plan for investment promotion	<u>0.1</u>
	<u>9.6</u>
<b>2022</b>	
Renovation of Site Office Building	4.0
Study the plans for normal jetty and engagement of consultants for supplies	<u>1.0</u>
	<u>5.0</u>

**(d) Leasing out of lands for investors, Implementation of the Project by Investors and Supervision of the Authority**

The following observations are made.

- (i) Ten islands had been leased out for 07 investors including four Kalpitiya Islands to two companies in the years 2010 and 2011, one island to one company in 2020 and five islands to five companies in 2022. However, no development activity had not been commenced by the audited date of 30 September 2023 as there were issues related to occupants, obtaining approval, non-submission of application with required documents by promoter to

Investments Relations Unit, not enough intervention by the Authority. Details are given in Annexure 03.

- (ii) Master plans had not been prepared for Ippantivu island which had been vested to Authority in 2010 and had been leased out in the same year. Furthermore, 03 islands of Vellai -1, Vellai -11 and Vellai - 111 islands had been leased out to a company on 13 July 2011. However, its Master plan had been prepared on 20 March 2012. Thereon, those three islands had been leased out without preparing master plans.
- (iii) Master plans had been prepared for the development of Kalpitiya town by the Authority empowering the local community for the purpose of ethnic religious harmony, strategic management plan, waste management, garbage treatment, drainage and developemnt of infrastructure facilities, development of cottage industries, development of fishing industries, development of salt product industries, development of health services with the coordination of state institutions such as Urban Development Authority, Fisheries Ministry, Department of Coastal Protection. However, the related programs had not been implemented.

**(e) Failure to Collect Rent**

The Authority had failed to collect an amount of Rs.59,025,931.60 from five lessees related to five leased islands by 30 November 2022. Details are given below.

<u>Leased Island</u>	<u>Date of Lease</u>	<u>Lessee</u>	<u>Rent arrears</u> <u>(Rs.)</u>
Ippantive	2010.09.02	Qube Lanka Leisure Properties (Pvt) Ltd	50,796,768.61
Vellai -1, Vellai -11, Vellai -111 islands	13.07.2011	Sun Resort Investment Lanka (Pvt) Ltd	1,728,166.92
Sinna Iramative Island	14.12.2020	Samagi Hotel and Travels (Pvt) Ltd	1,556,402.93

Iramative West Island	07.03.2022	Samagi Hotel and Travels (Pvt) Ltd	93,448.72
Sinna Arachchil	20.04.2022	Necleus International (Pvt) Ltd	4,327,935.88
Iramative	30.06.2021	Consulting Engineers & Architect Associated (Pvt) Ltd	523,208.54
			<u>59,025,931.60</u>

**(f) Being taken a Longer time to direct lands for Investments**

An amount of 457.44 acres of land belonging to 06 Kalpitiya islands had been vested by the President as free grants to the Sri Lanka Tourism Development Authority in 2010, but it had been taken a long time (years 09-11) to direct those lands for investing activities . Details are given below.

No	The Island	Land size (Acres )	Date of grant of land by way of free grants	Date of Agreement	Delay time ( Years )
01	Periya Arachchil	109.75	2012.11.01	2022. 10 . 18	09
02	Sinna Iramative	5.22	01.11.2010	2020. 12 . 24	10
03	Iramative West	10.5	01.11.2010	2022. 03 . 22	11
04	Sinna Arachchil	41.1	01.11.2010	2022. 04 . 20	11
05	Iramative	223.79	29.10.2010 01.11.2010	2022. 06 . 30	11
06	Kakathive	67.08	01.11.2010	2022. 08.29	11

**(g) Corporate Plan**

Although the tourism development projects in Kalpitiya area should be introduced , developed, improved and promoted in the detailed institutional action plan contained under sub-activity 9.4 of section 9 of the corporate plan prepared by the Authority for the period of two years from January 2020 to December 2022, nothing had been done by 30 November 2022.

**(h) Not Being Functioned as per the Agreement**

**Qube Lanka Leisure Properties (Pvt) Ltd**

According to 5.2.7 of the agreement, within 90 days from 02 September 2010, which is the starting date of the agreement, Rs. 60 million was to be paid by the lessee for the development of the island's infrastructure and buildings, but the information of paying such amount had not been submitted to the audit. The Authority should have also developed a jetty for the sole use of the migrant fishing community and the fishing community who are legally engaged in fishing, but the same had not been done.

As per Clause 9.1 of the Agreement, the Company shall commence commercial operations within 36 months from the date of commencement of the Agreement, but it had not been implemented as per Clause 5.2 of the Agreement. Every monthly installment shall be paid on or before the last day of the preceding month by 30 November 2022, there was an unpaid rental value of Rs.50,796,768.61. The authority had not taken steps to cancel the binding agreement with the authority until 30 November 2022, the date of the audit, although the agreement could be canceled according to clauses 17.1.1 and 17.1.2 of the agreement respectively. Further, the proposals had been invited to select new investors for the 12 islands of Kalpitiya including that island by Sunday Observer newspapers on 21 July 2019 and 13 October 2019 without canceling the agreement between the company and the Authority.

**Necleus International (Pvt) Ltd**

The agreement could be canceled in accordance with clause 6.1.2 of the agreement due to not conducting initial clearance within 6 months from the date of commencement of the agreement and non-payment of rents as per clauses 5.1.1 and 5.1.3 of the agreement because only one rent installment amount had been paid on 20 April 2022, which is the date of the agreement. However, the Authority had not taken steps to cancel the binding agreement with the Authority by 30 November 2022, which is the date of the audit.

## **Samagi Hotel & Travels (Pvt) Ltd**

Although the agreement could be canceled in accordance with clause 15.1.2 of the agreement between the Authority and the Company on 14 December 2020 regarding Sinna Iramative Island on failure to act as per clauses 5.1.1 and 5.1.3 of the agreement due to non-payment of rent installments for more than 19 months and the company had not carried out initial clearance within 6 months from the commencement date of the agreement as per the clause 6.1.2 of the agreement, the authority had not proceed to cancel the binding agreement with the Authority until the audited date of 30 November 2022. However, agreements had also been made with that company on 07 March 2022 regarding Iramative West Island.

### **(i) Performance Guarantees**

It had been approved by the Secretary of Tourism Ministry in letter No. MTCA/PLD/03/01/92 and dated 18 January 2022 that a performance guarantee should be obtained at the time of signing the lease agreement with all selected investors (local/foreign) for the development of tourism projects on lands owned by the Authority. However, the related clauses had not been included in the agreement between the Authority and Nucleus International (Pvt) Ltd on 20 April 2022 regarding Sinna Arachchil Island, and according to the agreement reached on 07 March 2022 between Samagi Hotel and Travels (Pvt) Ltd, performance guarantee of Rs.1,000,000 had also not been taken.

### **(j) Actions taken against the lands not leased out and leased out but not implemented operational activities**

It had been left 12 years of receiving the lands of 02 Kalpitiya Islands amounting to 1,388.04 acres in 2010 as free grants by the President to Authority by the Audited Date of 30 November 2022. However, action had not been taken to recognise an investor and lease out those lands. Details are given below.

<b>Number</b>	<b>The Island</b>	<b>Date of lands given as a free grant</b>	<b>land Size (Acres )</b>	<b>Delay (Years)</b>
01	Uchchamunai	17.04.2010	1096.19	12
02	Battalangunduwa	01.11.2010	<u>291.85</u>	12
			<u>1388.04</u>	

### **3.2.2 Yala Tourism Development Project**

The Authority had taken over lands amounting to 1,136 acres for the purpose of a tourism development scheme in the Yala Palatupana area through the gazette in the years 1971, 1973 and 1975 for the purpose of implementation of a tourism scheme in this area for the first time to create a “Wildlife **Tourism Zone**” as a tourism project. A Cabinet Paper No. 019/519/1377/12 dated 26 September 2012 had been submitted and it had been approved by the Cabinet on 04 October 2012.

The following observations are made.

#### **(a) Not Being Performed Functions as Expected**

According to paragraph 3.1 (c) of the above paper, the project was planned to be implemented in three phases within a period of six years so that the entire project area can be used optimally. Even though 10 years have passed since 2012, only the first phase has been operational. Accordingly, the management has failed to perform the tasks expected to be implemented under the second and third phases, and due to this , although it was expected to provide tourists with a diversified environmental experience in the Yala Palatupana tourism zone, it was not able to provide it in that way .

#### **(b) Poor selection of investors and hence underutilization of land**

According to paragraph 4.1 of that paper, in the first phase, especially for environmental lodges, 7 plots of land of 7 acres each from the area near the coast were approved to be given to four named investors and in addition to those four investors, three unnamed other investors from the cabinet paper was approved by the Board of Directors paper no2013/03/14. However , all the three investors approved by the Board of Directors had not commenced operations by the date of audit, 30 November 2022, and only two of the

investors named in the Cabinet Paper had commenced operations. Accordingly, in the examination of the financial statements of the investors who did not commence operations, it was revealed that the ability of those investors to finance the projects was also at a low level according to the submission of losses and the application for loans by putting the leased property as collateral. Whether that situation was brought to the attention of the " Investors Selection Committee " was problematic in the audit. Due to this, 35 acres of land suitable for investment remained underutilized for 12 years .

(c) **Investors Not having obtained the certificate of Environment**

As per paragraph 4.3 of the above paper, all investors should obtain ISO14000 environmental certification to confirm the ability to maintain an eco-friendly lodge within the Sri Lanka Tourism Authority's Yala (Palatupana) tourism zones. But the environment certificate had not been obtained by the selected investors. Due to this, it was observed that there was a risk of damage to the environment due to the non-standardization of the activities to minimize the use of natural resources during the activities and to minimize the damage to the air, water and environment.

( d ) **The Construction method was not green**

Paragraph 4.4 of the paper states that the implementation of the projects and the construction methods to be followed should be green as a whole , and maximum use of local materials should be made to ensure that there is no impact on the vegetation and environment of the project land and the surrounding area. Also, under the 6.5 design of the development guidelines for the region, the height of the construction should be limited to one floor , and the constructions are composed of wooden structures that blend in with the environment. But the constructions by the investors who have not commenced the operations have been completely concrete buildings. This will hinder tourists from providing the fresh experience of an ecological and natural environment expected from the project .

(e) **Construction of Bungalows and Camps**

In addition to the construction of lodges, bungalows and camps were also to be built in the Yala Tourism Zone had been approved in the paragraphs 2.2.2.3 and 2.2.3.3 of the Cabinet Paper No. 13/0309/519/066 dated 05 March 2013 on "Allocation of Land for Eco-Friendly Tourism Products ". However , as of 30 November 2022, which was the date of the audit, more than 9 years had been passed since the approval of the Cabinet of Ministers , but the bungalows had not yet been constructed and operational activities commenced. However, lease agreements had been signed with three investors for five projects in the years 2020 and 2021. In the first phase, two investors who had delayed the contract to build lodges had also been selected to build bungalows.

(f) **Failure of Investors to Implement their Projects**

According to paragraph 2.2.1.1 of the paper, the investment could be built entirely with domestic or foreign cooperation and it was expected to consider investments equal to or more than 300 million rupees. Although an investment of 2100 million rupees was expected in the region by giving 7 plots of land to investors, an investment of 1500 million rupees had been stopped due to the failure of 5 investors to implement their projects. Furthermore , this had not been able to reach the expected room capacity and employment.

(g) **Not been able to Commence the Commercial Operations in Environmental Lodges**

The Authority had entered into an agreement with the investors in relation to the implementation of projects and the authority had the ability to terminate the agreement if the lessee fails to start commercial operations on or before the end of twenty four ( 24) months from the date of issue of the Commencement Notice as per Section 12.1.1 of the Agreement or any other longer period that may be agreed upon by the Authority. This was helped in effective implementation of the project as well as it was expected to complete commencement of the project within the expected time frame by the selected investors. However, time extension was given continuously for 4-5 years from the date of issuance of the opening notice to 07 no of investors who did not



complete the construction and to 04 no of investors who did not commence the construction. Due to this, the management had failed to fulfill the expectation to commence the commercial operations of the environmental lodges at the same time.

### **3.2.3 Kuchchaveli Tourism Development Project**

It had been announced that the land area of 576 acres in Kuchchaveli Divisional Secretariat division in Trincomalee district in Eastern Province as a Tourism Development Zone through the gazette notification no.1671/29 dated 17 September 2010.

A land amounting to 387 acres had been vested by the Honourable President of Democratic Socialist of the Republic of Sri Lanka again on 25 March 2011 as a free grant to Sri Lanka Tourism Development Authority.

The following observations are made.

#### **(a) Identification and Acquisition of Suitable Land .**

It had been reported to Commissioner General of Lands by the letter No.4-2/5/31/5/8 dated 04 June 2014 that the approval of the President had been received to vest 03 no. of land plots with 123 acres in that region to Sri Lanka Tourism Development Authority for tourism development scheme under the Section 06 of the Land Ordinance.

However, grant paper for this had been signed by the President on 14 August 2020. However, the authority of lands in this area had been in possession of the Authority since 2011, the master plan with a proper study regarding the relevant area and the background of the project had been prepared in 2019 after 09 years of vesting.

#### **(b) Preparation of Plans**

By the prepared master plan ,

- To lease out Plot No. (Block) 01, 02, 03, 04(1), 04(2), 07(1), 07(2), 08 and 09 to investors for tourist hotel projects ,

- A road including bicycle lanes and foot path covering existing and proposed viewing points in the region
- In the Central Node of the plan, the offices of the Sri Lanka Tourism Authority, the Department of Forest Conservation, the Department of Wildlife Conservation, car parks, restaurants, and wild elephant viewing lofts and Road to the beach
- Plot No. 05, 06(1) and 06(2) of the plan as a conservation area for elephants,
- In the plan, it was proposed to expand the existing 02 tanks in Lot No. 05 and to prepare a new tank in the protected area for wild elephants in Lot No. 06(2).

However, at the time of handing over the relevant land to the Authority, no investor except the company that was carrying out of the construction works, and as of the date of audit, the construction works had not been commenced and the Authority had failed to prepare even the necessary preliminary plans for any of the activities proposed above.

**(c) Allocation of Land for Projects and Prevention of Unauthorized Access to Land.**

The following observations were made during our physical inspection in the relevant area and it did not seem that the Authority has paid enough attention to it.

- (i) The concrete poles located to mark the boundaries of the land had been removed from some places and some poles had been broken or removed and the boundary poles had not even been located in the land plot number 09 (Block 09 ) which was 03 acres. ( Photos shown in Annexure 04 )
- (ii) Certain parts of land had been occupied and enjoyed by other persons without permission and certain lands It was observed how wooden posts were planted and separated without permission. ( Photos shown in Annexure 04 )
- (iii) It was seen that an unauthorized road was being prepared and used for transporting sand through the land and the National Youth Service Council has prepared an access road through the middle of the Authority's land and two gate posts had also been prepared at the entrance. ( Photos shown in Annexure 04 )

**(d) Infrastructure and Other Facilities to be Developed in the Project**

It was identified at our examination that not being developed the infrastructure facilities in the area had been mainly affected to the performance of the project. Accordingly, there were a few problems mainly recognised.

- (i) Water Supply of National Water Supply and Drainage Board had only been limited upto Irakkandi Bridge while there was no general water supply in the area.
- (ii) Transport facilities had not been developed to connect from other areas including Colombo.
- (iii) It is necessary to obtain a separate supply because the electrical power supply received from Electricity Board was not sufficient.

Even though it has been left 12 years since the land was handed over, it was not observed that the intervention of Authority was not sufficient for the problems relating to infrastructure facilities and it could not be expected that the objectives of the project would be achieved only by entering into agreements with investors time to time without establishing a suitable environment for investors.

**(e) Leasing of Land Owned by the Authority to Investors and Charging related Rents**

The Cabinet paper submitted by the then Minister of Economic Development entitled "Rapid Development of Tourism Industry" had been approved by the Cabinet decision No.11/0092/519/002 and dated 12 January 2011. Accordingly lands in Kuchchveli Tourism Development Zone owned by the Authority had been allowed to be leased for a period of 99 years on a lump sum payment of Rs.20 million for each acre of lands.

The following observations are made in this regard.

- (i) In accordance with the above Cabinet decision, 30 acres of land in the Kuchchaveli Tourism Development Zone was leased to 02 companies in the year 2011 and a lump sum payment of Rs.600 million was collected from the lessees and credited to the consolidated fund. Since then, the authority had failed to lease any land till 17 May 2021.

(ii) In spite of the above Cabinet recommendation, board decision No. 21/05/2019 and dated 28 June 2019 had been received to act according to the circular No. SP/RD/02/10 of the Secretary to the President dated 03 February 2010 issued in relation to “Government Land Management”. Accordingly, the land lease period of the Authority had been changed to 30 or 50 years instead of 99 years. Board of Directors had approved it.

(iii) Although having to pay a large sum of money by leasing the land for a long period of time may have adverse effects on the investor and rent income of the Authority by charging only a small nominal monthly rent for a long period of time, the decision of the board of directors to adhere to the provisions of a circular issued before a cabinet decision without changing it by a similar cabinet decision, during the audit was problematic.

**(f) Implementation of the Project by the Investors and Supervision of the Authority**

Master plan for the project had been prepared in the year 2019. Due to an area where wild elephants roam in 136 acres out of the total land area of 510 acres, it was proposed to be removed from the land allocated for investors. Accordingly, only 59 acres of the remaining land had been leased out to 04 investors by 30 November 2022, and one investor who had obtained 15 acres of land on lease basis only doing business at present. The current status of other investments including that institution is given below.

<b>Name of Investor</b>	<b>of Extent of land leased (Acres)</b>	<b>Date of Lease</b>	<b>of Current situation</b>
Jungle Beach Resorts (Pvt) Ltd	15	04/08/2011	Business activities had been commenced in 2012 and are currently conducting business activities.
Mfar Hotel & Resorts (Pvt) Ltd	20	20/05/2011	So far, no steps had been taken to submit the initial application to get the primary clearance.

Negombo Holiday Resorts (Pvt) Ltd	14	05/17/2021	Preliminary clearance had been obtained for the project but the Environmental Impact Assessment (EIA) report had not been obtained so far.
Solana Investment (Pvt) Ltd	10	04/18/2022	Although Primary clearance should be obtained within 06 months, applications had not been submitted so far.

Accordingly, it is problematic for the audit whether the supervision of the Authority had done properly in relation to whether the approval for the project was taken within the stipulated time after signing the agreement with the investors, and whether the construction was started and completed within the stipulated time .

**(g) Action taken by the Authority in relation to land leased out to Investors but not implemented projects and lands not leased out**

Lands of 20 acres of the project had been given to Mfar Hotels & Resorts (Pvt) Ltd on 20 May 2011 on a 99 year lease basis. According to clause 12.1.1 of the relevant rent agreement , steps should be taken to commence business activities within 05 years, if it was failed to do so, the agreement could be cancelled. But even after that, the Authority had extended the relevant period for requests made by the institutions for time extensions citing various reasons. However, even after 11 years, no steps had been taken to get even the initial approval for the project and it was not observed that there was an action taken by the Authority.

**(h) Non-signing of Lease Agreements**

Construction had been commenced before handing over the land to the Authority and later on works had been stopped by Nilaweli Hotel Management (Pvt) Ltd and Seth-Ru-Ma Ayurveda Paradise (Pvt) Ltd had not signed lease agreements with the Authority so far. had not been dealt with and the measures to be taken for it had not been taken by the authority so far. However, it was also observed during our

inspection.that Nilaweli Hotel Management (Pvt) Ltd had almost completed the construction work ( Photos are given in Annexure 04 ) .

#### **3.2.4. Dedduwa Tourism Development Project**

It was identified as a tourist attractive place on the west coast, for the purpose of providing plots to investors to start various business activities that attract tourists to increase the time of a tourist's stay in Bentota. In the year 2002, the then existing Sri Lanka Tourist Board had commenced the activities to acquire the 4000 acres of marshy area around the Dedduwa Lake, located at a distance of about 2.5 km away from Bentota tourist resort, and it had been developed as a tourism development area.

The following observations are made.

- (a) **Efficiency and Effectiveness in Identification of Suitable Land, Acquisition Process and Allocation for Projects;**
  - (i) Even though it was proposed to declare Dedduwa as a “Tourism Development Area” in preliminary round of negotiations on 05 February 2002, the Authority had not taken steps to designate such an area as per the Act even by the date of audit.
  - (ii) According to the Cabinet decision No. AMPA/04/0992/005/007 dated 10 September 2004, approval had been given to acquire 1200 acres in the first phase and the acquisition cost of Rs. 30 million had been deposited by the Authority on 27 August 2004 in Bentota Divisional Secretariat. Although the Board had decided to withdraw the money contrary to the decision of the Cabinet due to the delays caused by various factors such as the Ministry of Lands not responding promptly, the delay in submitting the master plan, certain plots of land being unsuitable for development according to the feasibility reports, etc. It was observed that the re-acquisition process had been commenced after a delay of one year due to the receipt of orders to acquire the land on 03 August 2005.
  - (iii) The Authority as the coordinator to prepare a master plan for the project, had spent more than a year in submitting the preliminary report, despite the contractual period of 3 months in the agreement with a consultancy firm, and that too was not of an

acceptable level with many deficiencies as per the recommendations by the Technical Evaluation Committee on 31 March 2005. Thereon, the concerned institution was informed that the agreement would be suspended. However, the Authority had failed to submit a master plan for audit even by the date of audit.

- (iv) The Authority had decided in the board meeting on 17 January 2010 to abandon the project due to the maximum number of tourist rooms that can be generated from the project was 100 according to the strategic environmental impact assessment, the cost of land acquisition was more than Rs.100 million and the cost of infrastructure development was very high, and the relative economic benefit of the project was very low, the lack of available land for construction. However, the authority had already spent a lot of money on acquisitions.
- (v) As per the guidance of the Ministry, the process of re-acquisition was started and compensation was started on 20 July 2011 for 567.219 hectares of private land under Section 9 of the Land Acquisition Act. However, despite the lapse of 12 years, compensation proceedings had not been completed by the date of audit due to non-presentation of claims.
- (vi) Preliminary work to acquire another 11.8652 hectares of land was started in 2017 as it was later found that the tourists coming to the tourist resorts to be built under the project do not have access to the beach. For that, through the special gazette number 2070/29 dated 10 May 2018, the acquisition of land for tourism development works was prescribed in accordance with section 49 (a) of the Act. However, the acquisition had not been completed by the date of audit.
- (vii) Under section 7 of land acquisition, 107 no of plots of land totaling 694.54 hectares (1716 acres) had been acquired in 2017 by Extraordinary Gazette No. 1580/16 dated 18 December 2008 as shown in the basic plot No. 3608. It has been transferred to the Authority by transfer certificate under Section 44 of the Land Acquisition Act on 28 November 2017. However, even as of July 2021, the allotted land had not been used for development works and an area of about 40 perches within the said land was being used illegally for pet fish breeding by Benthota Divisional Secretary by letter No. Ben/2/7/3/1/1/general dated 16 July 2021 and the letter dated 25 January 2022 had been informed regarding the construction of houses on paddy lands handed over to the

government after paying compensation to the land owners. The actions taken by the Authority in this regard were not clear to the audit.

- (viii) Even though 20 years had been passed since the commencement of the project, the Authority had failed to lease the land to the investors even by the date of audit and currently the boundaries of the land had been opened and which was 1,716 acres as per the basic plot No.3608 by surveyor general. The opening of boundary and relocating of boundary posts had been continued.

**(b) Project Identification, Attraction and Selection of Investors**

- (i) The Extraordinary Gazette No. 1247/22 pursuant to section 49 of the Land Acquisition Act No. 09 of 1950 as an ordinance in terms of 2(1) of the Tourism Development Act No. 14 of 1968 approving the acquisition of 1200 acres of land as planned in the first phase for a tourism development purpose was published on 02 August 2002. However, changing the planned phases, the board had arranged to publish a newspaper advertisement on 12 December 2002, inviting potential investors to develop a 2000-acre land as the first phase. However, at that time, no basic facilities development, master plan or any land acquisition had been taken place in the area.
- (ii) Approval had been requested to lease 2000 acres to one company in Cabinet Memorandum No.2003/08 dated 05 February 2003. However, the Board of Investment had informed five months later that the project proposal of that company submitted for approval was not at an acceptable satisfactory level by the letter dated 28 July 2003. Further, The Board of Investment had informed two years later by the letter dated 20 August 2004 that the relevant files would have to be closed due to the non-existence of a project proposal of another investor included in the same memorandum. However, there was no evidence that the authority had done any follow-up in this regard.
- (iii) The development proposal evaluation committee appointed by the Authority had decided to recommend the project proposal with an investment of USD 2.3 billion for the first phase of the project with conditions. Before signing the lease agreement, a condition was reached for the concerned investor to deposit USD 500 million in a



local bank account. However, despite the deadline being extended to May 2022, the Authority had taken action to withdraw the relevant project proposal as the investor failed to deposit the relevant amount by 30 June 2022. However, the Authority had not selected an investor for the project till the date of audit.

### **3.2.5. Pasikuda Tourism Development Project**

Sri Lanka Tourism Development Authority had contracted with 14 companies to lease lands within the premises of the Pasikuda National Resort and 12 of them are currently conducting business.

A tripartite agreement had been reached with Sri Lanka Institute of Architect and Design Consortium (Pvt) Limited to prepare the master plan for the project and accordingly the development work to be done in the area and the services to be established had been identified. identified The relevant facilities thus are given in Annexure 05 .

Accordingly, the following facts were observed during the physical inspection carried out by us in the relevant area .

#### **Establishment of facilities**

- (a) Out of the facilities that had been identified, only the sewage treatment system, water tank , resort office and the building with toilet and bathroom facilities had already been established establishment of other facilities as planned, that-But due to the non building had been closed without use .(Photos are given in Annexure 06)
- (b) During our inspection, it was found that between 300 and 500 local and foreign tourists visit the area during weekends and the existing facilities for them had not been sufficient and the deficiencies identified are as follows .
  - (i) As per the master plan, a public car park had not been established at the designated place and it was observed that the car park currently in use could not be used on rainy days and was in a very dirty condition .
  - (ii) There were two small toilets currently in use in the car park and they were unusable and very dirty and there was no bathroom facilities or a proper place to change clothes in the area .

- (iii) There was no system in place to prevent unauthorized access to the premises and therefore it was observed that the dogs and cows constantly roaming in the area threaten the cleanliness of the area and the safety of tourists .
- (iv) It was clear that some of the roads used to travel in the premises had been dislodged and potholes had been formed and some of the roads had been muddy during rainy days .
- (v) There were 210 lamp posts had been installed by the Authority in 2016 to provide electricity for those roads, but it was seen that they were not in working condition. Also, it was known that the batteries of many of them had been stolen and their solar panels had been removed and kept separately.
- (vi) The road leading to the public beach from the car park which was currently being used had been flooded on rainy days and the temporary plank bridge that was prepared to travel between had fallen out of planks and was unusable for 6 months.
- (vii) During our inspection, it became clear that the tourists had not even been provided with water facilities in the area and the tourists were inconvenient, because there was no designated place to take food.
- (viii) There were 05 police life guard units and main Tourist Police Unit had been established in the coastal zone, but it was not observed that the necessary facilities had been provided for them properly. It was clear to the audit that the authorities had been informed in writing about above deficiencies, but no attention had been paid to them until the audited date.

#### **4 . Recommendations**

- (a) In accordance with Section 26 (1) of the Tourism Act No. 38 of 2005, action should be taken to adhere on the recommendations of the Authority when declaring a tourism development area and include the attractive places that attract the tourists.
- (b) New tourism development areas should be identified and announced .
- (c) According to Section 26 (3) of the Tourism Act No. 38 of 2005, orders should be made specifying the tourism, commercial and other activities that can be carried out within a tourism development area.
- (d) Close monitoring of the development projects carried out on the Authority's direct funding and jointly with the relevant institutions and to implement them effectively and pay sufficient attention to establish new facilities or improve existing facilities in relation to tourism development areas .
- (e) Investors should be selected according to a formal method when leasing lands under tourism development projects and the authority should make adequate intervention for the problems faced by the investors in problems related to the residents of the leased land, problems related to obtaining approvals, problems in submitting the investment application, etc.
- (f) Adequate planning and feasibility studies should be done regarding investment properties, efforts should be made to reserve investment properties for tourism development projects and to prevent unauthorized access to land and Sufficient supervision should be done regarding development activities carried out by investors on leased properties their maintenance and necessary activities should be carried out to deploy the underutilized investment properties for investment activities soon.
- ( g ) To enhance the facilities and attractions for tourists by maintaining good coordination with other government agencies
- ( h ) Obtaining performance guarantees in accordance with the agreements , taking proper and prompt action to collect the arrears and cancellation of investment property contract agreements that have not been properly dealt with and legal action to be taken and damages to be collected.

- (i) Investors should be monitored whether the relevant environmental certificates have been obtained and whether the construction is green

**Sgd./W.P.C. Wickramaratne**  
**Auditor General**

W.P.C. Wickramaratne

Auditor General

12 January 2024

**Lands named as Tourism Development Areas**

	<b>Gazette no</b>	<b>Date</b>	<b>Area</b>
<b>1</b>	478	30.10.1987	Hikkaduwa
<b>2</b>	502/27	20.04.1988	Unawatuna
<b>3</b>	710	10.04.1992	Mount Lavinia
<b>4</b>	1128/6	20.04.2000	Pinnawala
<b>5</b>	1247/9	31.07.2002	Negombo
<b>6</b>	1247/9	31.07.2002	Beruwala
<b>7</b>	1255/23	26.09.2002	Nilaweli/Uppuveli
<b>8</b>	1259/3	21.10.2002	Madu River
<b>9</b>	1272/2	20.01.2003	Arugambe
<b>10</b>	1272/2	20.01.2003	Trincomalee
<b>11</b>	1272/2	20.01.2003	Calcutta
<b>12</b>	1508/18	01.08.2007	Kalpitiya
<b>13</b>	1671/29	17.09.2010	Kutchaveli
<b>14</b>	2147/43	29.10.2019	Iranavila

**Details of land owned relating to 12 Kalpitiva islands that were assigned to the Authority as presidential free grants in 2010 and 2012**

<b>No</b>	<b>The Island</b>	<b>Date of grant of land by way of free grants</b>	<b>Land size (Acres)</b>	<b>Total (Acres)</b>
01	Ippantive	29.10.2010	114.36	
	Ippantive	01.11.2010	<u>38.15</u>	152.51
02	Vellai -1	01.11.2010	3.69	
03	Vellai -11	01.11.2010	22.53	
04	Vellai -111	01.11.2010	<u>32.52</u>	58.74
05	Sinna Iramative	01.11.2010		5.22
06	Iramative West	01.11.2010		10.5
07	Sinna Arachchil	01.11.2010		41.1
08	Iramative	29.10.2010	38.41	
	Iramative	01.11.2010	<u>185.38</u>	223.79
09	Battalangunduwa	01.11.2010		291.85
10	Uchchamunai	2012.04.17		1096.19
11	Periya Arachchil	2010.11.01		109.75
12	Kakathive	01.11.2010		67.08
				<u>2056.73</u>

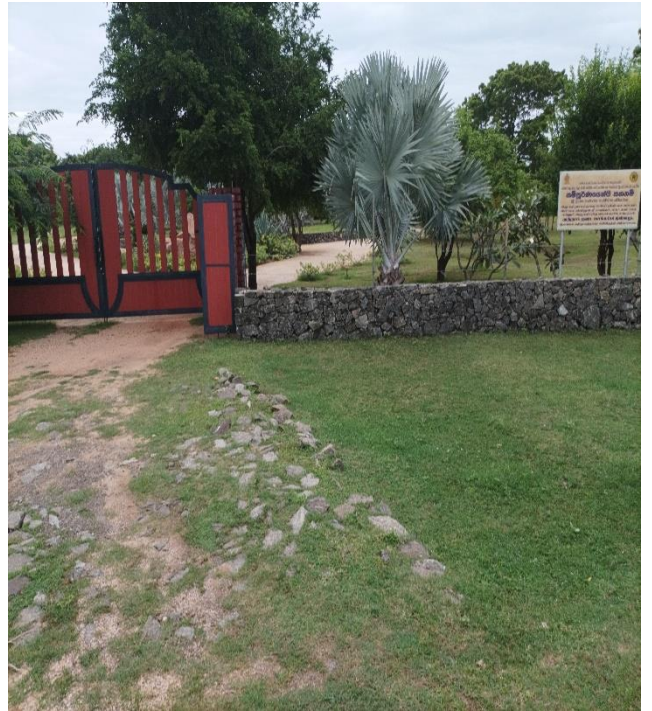
**Leasing of land**

No	The Island	Date of grant of land by way of free grants	Land size (Acres )	Lessee	Date of Land Leased	Amount of land leased ( acres )	Whether the business activities had commenced	Reasons for not commencing a business
01	Ippantive	29.10.2010, 01.11.2010	152.51	Qube Lanka Leisure Properties (Pvt) Ltd	2010.09.02	142.5	No	Issues related to the fishing community residing on the island , requesting the authority to provide an alternative land for investment activities
02	Vellai -1	01.11.2010	} 58.74	Sun Resort Investment Lanka (Pvt) Ltd	13.07.2011	} 58.74	No	The authority does not have a proper understanding of how to obtain the necessary approval to build a luxury resort with 50 guest houses consisting of water guest houses and water bungalows.
03	Vellai -11	01.11.2010						
04	Vellai - 111	01.11.2010						
05	Sinna Iramative	01.11.2010	5.22	Samagi Hotel and Travels (Pvt) Ltd	14.12.2020	5.22	} No	Failure to carry out clearing activities by submission of the application along with the required documents, as per the sentence 0.13f of the related operating manual of Authority investments, to the Investment Relations Unit and sufficient intervention had not been incurred by the authority.
06	Iramative West	01.11.2010	10.5		04.03.2022	10.5		
07	Sinna Arachchil	01.11.2010	41.1	Necleus International (Pvt) Ltd	20.04.2022	41.1	No	Failure to carry out clearing activities by submission of the application along with the required documents, as

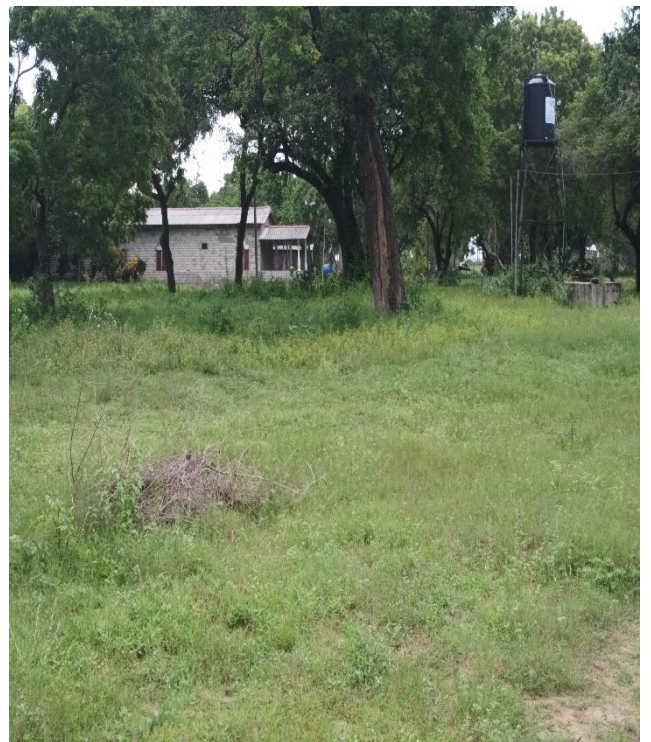
								per the sentence 0.13f of the related operating manual of Authority investments, to the Investment Relations Unit and sufficient intervention had not been incurred by the authority.
08	Iramative	29.10.2010, 01.11.2010	223.79	Consultant Engineers and Architects (Pvt) Ltd	30.06.2022	223.79	No	
09	Battalang unduwa	01.11.2010	291.85	} Not leased out				
10	Uchcham unai	17.04.2010	1096.19					
11	Periya Arachchil	2012.11.01	109.75	Kalang Water Villas (Pvt) Ltd	18.10.2022	109.75	No	Failure to carry out clearing activities by submission of the application along with the required documents, as per the sentence 0.13f of the related operating manual of Authority investments, to the Investment Relations Unit and sufficient intervention had not been incurred by the authority.
12	Kakathive	01.11.2010	67.08	Capital Corp Internation al (Pvt) Ltd	29.08.2022	67.08		
			<u>2056.73</u>			<u>658.68</u>		



Nilaveli Hotel Management (Pvt) Ltd which had not signed a lease agreement but under construction



Seth Ruma Ayurveda hotel which the works had been commenced and stopped



Road prepared for unauthorized transportation of sand through authority land



The access road being constructed by the National Youth Service Council through the authority's land



Plots of land are occupied and enjoyed by other persons without permission and how some plots of land have been illegally set up and separated by wooden stakes.



How the concrete posts planted to mark the boundaries of the land had been removed from some places





1. Main entrance to the resort
2. Heli/Pad
3. Stream
4. Spillover basing
5. Public court
6. Beach
7. Extended private beach
8. Dingy pier
9. Tsunami memorial tower
10. Main pedestrian access
11. Performance place with outdoor dining
12. Aquarium
13. Art gallery
14. Performance Art Center
15. Restaurant and tea center
16. SLTDA Office
17. Communication/ Tourists information center and Tsunami warning center
18. Domestic tourist resort
19. Recreation purpose
20. Craft village
21. Hotel bus/car Park
22. Public three Wheeler Park
23. Public Car park
24. Public Bus park
25. Toilet block
26. Changing rooms
27. Hotel sites
28. Access ways to beach
29. Bridge
30. Vehicular road
31. Green belt
32. Pedestrian path
33. Pontoon
34. Sea plane jetty
35. Water tank and sump
36. Sea
37. Sewer treatment plant
38. CEB, Telecom, Medical center and common laundry
39. Collapsible SHELL structure for performance and events
40. Children's park



The building, which is currently closed, was prepared for sanitary purposes



The wooden bridge has been dilapidated for 6 months

