

Unlocking the Potential: Strategic Development of Nautical Tourism and Shipyard Infrastructure in Sri Lanka

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Executive Summary

The global marine tourism market is expected to grow almost twice to USD 137 billion over 2021-2031. Benefiting from this, the global yacht and yacht charter markets are expected to grow 1.5x to USD 40.4 billion over 2023-2029 and 1.8x to USD 20.2 billion over 2022-2032, respectively. Despite these global growth prospects, Sri Lanka is yet to fully capitalize these opportunities due to the constraints in Sri Lanka's boat and shipbuilding sector in meeting the demand for high-end larger vessels. Furthermore, Sri Lanka's ability to attract international yacht tourism is limited by the absence of world-class marinas and docking facilities for large yachts.

Also, with the aim of positioning Sri Lanka as a premier destination for both yacht construction and nautical tourism, this proposal outlines a strategic plan to develop the Galle Harbour, Kapparatota, Weligama Bay and Welipatanwila into marinas and shipyards.

With an estimated initial capital expenditure of LKR 9.7 billion, the proposed developments are projected to have a Net Present Value (NPV) of LKR 8.2 billion and an Internal Rate of Return (IRR) of 13.88%, confirming the project's strong potential for economic growth and long-term sustainability.

Table of Contents

Executive Summary	2
Introduction	4
1.0 Global Market for Yachts and Marine Tourism.....	4
2.0 Sri Lanka's Limited Facilities and Lost Opportunities in the Global Yacht Market.....	6
3.0 Potential of boating as a life style in Sri Lanka	7
4.0 Sri Lanka as a premier destination for nautical tourism	8
A. Tourism in Sri Lanka.....	8
B. Nautical tourism in Sri Lanka.....	9
5.0 Increasing export revenue to Sri Lanka from the boat and ship building industry.....	10
A. Development of Galle harbour	11
A.1 Development of Galle harbour as a marina.....	12
A.2 Rehabilitation of the breakwater at Galle harbour	13
A.3 Development of existing premises of Galle harbour as a shipyard.....	14
B. Development of Weligama Bay	14
6.0 Competition to Sri Lanka as a marine tourism destination	15
7.0 Financial analysis for the proposal	17

Introduction

Fuelled by increasing wealth among high-net-worth individuals and the rising popularity of yacht charters, the global yacht market is experiencing a significant growth. However, Sri Lanka's boat and shipbuilding sector has not yet fully leveraged this opportunity, primarily due to gaps in its infrastructure and the limited capacity to produce large vessels. As can be seen through Sri Lanka's tourist arrivals by sea data, the country's cruise tourism has also contracted with no hope of rebounding to pre-pandemic levels without a large investment in the industry and this includes the development of marinas. This proposal seeks to address these challenges by initially developing the Galle Harbour, Kapparatota, and Weligama Bay as the key hubs for both boat building and marine tourism. By combining marine activities with inland experiences, this proposal expects to position Sri Lanka as a premier destination for nautical tourism.

1.0 Global Market for Yachts and Marine Tourism

Global market for yachts grows on the back of marine tourism and yacht charter markets

Global marine tourism market¹, which comprises of marine and inland water sailing, boating, yachting, cruising, nautical sports, sea angling, marine wildlife watching, sea kayaking, coastal rowing, surfing, windsurfing, etc., was valued at USD 71 billion in 2021 with an expectation to grow at a compounded annual growth rate (CAGR) of 6.7% to reach USD 137 billion in 2031. Building on this booming global marine tourism market, the global yacht market², which was valued at USD 26 billion in 2023, is expected to grow at a 7.6% CAGR to reach USD 40.4 billion in 2029. Driving the global yacht market is the global yacht charter market which is expected to grow at a CAGR of 6.9% to USD 20.2 billion in 2032 from USD 11.4 billion in 2022³. In 2022, despite the 27.3% YoY dip, world trade of recreational boats inclusive of yachts and other vessels stood at USD 16 billion

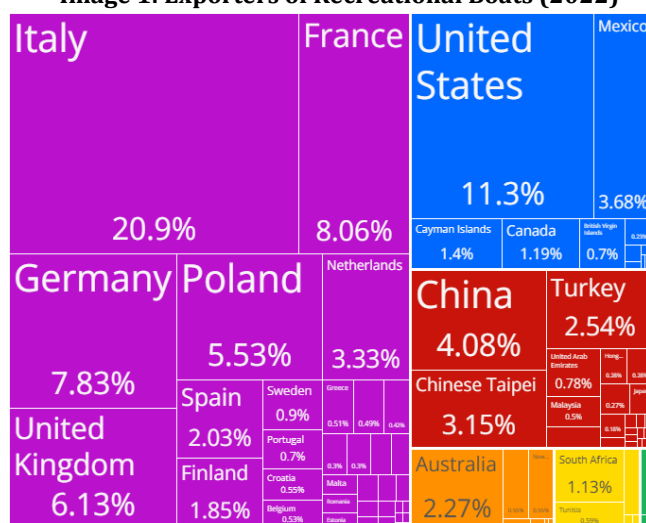
¹ <https://www.businessresearchinsights.com/market-reports/marine-tourism-market-104647>, accessed on 02.04.2024

² <https://www.marketwatch.com/press-release/global-yacht-market-outlook-forecast-2024-2029-a-40-4-billion-market-by-2029-growth-in-demand-for-luxury-tourism-and-high-net-worth-individuals-drives-demand-edf384da#:~:text=The%20global%20yacht%20market%20was,the%20lucrative%20luxury%20boating%20industry.,> accessed on 04.04.2024

³ <https://www.alliedmarketresearch.com/yacht-charter-market#:~:text=The%20global%20yacht%20charter%20market,6.9%25%20from%202024%20to%202032,> accessed 04.12.2024

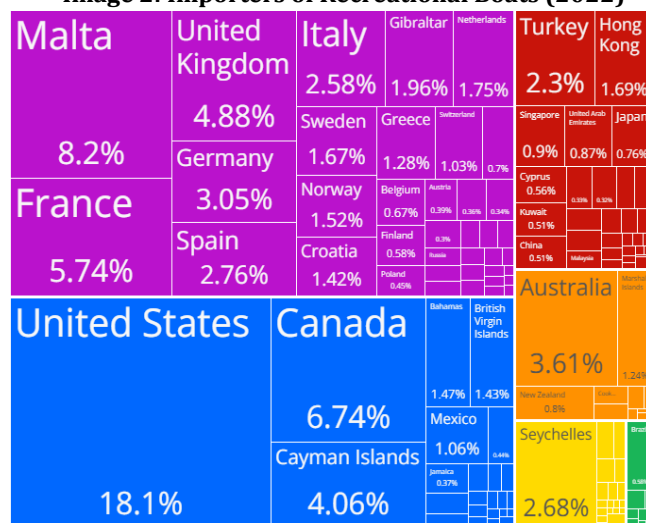
with Italy and the United States of America being the top exporter and importer, respectively.⁴

Image 1: Exporters of Recreational Boats (2022)



Source: <https://oec.world/en>

Image 2: Importers of Recreational Boats (2022)



Source: <https://oec.world/en>

Fundamental to the growth of the high-end vessels market is the increasing number of billionaires worldwide for whom buying a luxury yacht serves as a reflection of wealth and a symbol of success and status. In addition to their significant investments in yacht ownership, these billionaires also drive the growth of the yacht charter market. In 2023, the US, China, India, Germany, Russia, Italy, Brazil, Canada, Hong Kong, and the United Kingdom were the countries with the highest number of billionaires in the world with 813, 406, 200, 132, 120, 73, 69, 67, 67, 55 billionaires, respectively.⁵

In 2022, the global tourism industry saw notable trends in both sailing and cruise tourism. The most popular countries for sailing in 2022 were Croatia, Greece, Italy, Turkey, Spain, France, and Caribbean.⁶ However, cruise tourism thrived in Germany, Bahamas, the United Kingdom, Turkiye, and Indonesia with these five countries receiving most number of tourist arrivals by sea in 2022. The relevance of these destinations for cruise tourism continues to prevail as identified through the marine vessel traffic data for passenger vessels and superyachts.⁷

⁴ <https://oec.world/en/profile/hs/recreational-boats>, accessed on 05.04.2024

⁵ <https://www.forbes.com/sites/devinseanmartin/2024/04/02/the-countries-with-the-most-billionaires-2024/>, accessed on 11.12.2024

⁶ <https://www.sail-croatia.com/industry-news/yacht-charter-statistics>, accessed on 12.12.2024

⁷ <https://www.marinevesseltraffic.com/2013/02/fishing-boat-track.html>, accessed on 12.12.2024

Table 1: Inbound Tourism: Arrivals by Sea

Country	Arrivals by Sea (in Thousands)
Germany	6,028
Bahamas	5,531
UK	2,772
Turkiye	1,951
Indonesia	1,727
Morocco	1,422
Italy	1,355
Dominican Republic	1,325
Spain	1,152
Croatia	970
Jamaica	852
Sint Maarten	844
Cayman Islands	743
Greece	570
USA	547
Singapore	543

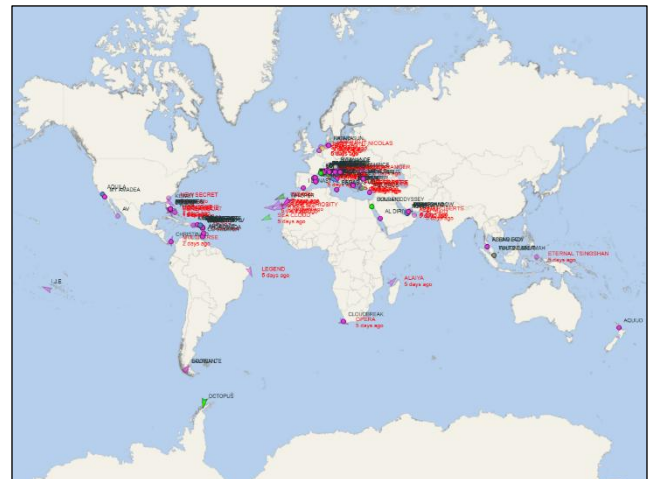
Source: UN Tourism, 145 key tourism statistics

Image 3: Passenger Vessels Traffic



Source: Traffic Data as at 11.25am on 12.12.2024

Image 4: Superyachts Traffic Data



Source: Traffic Data as at 11.26am on 12.12.2024

2.0 Sri Lanka's Limited Facilities and Lost Opportunities in the Global Yacht Market

Sri Lanka's boat and ship building industry suffers from inadequate facilities to reach the global yacht market

Sri Lanka has 16 boat and ship builders⁸ and 61 boat building yards⁹ primarily in the districts of Gampaha, Puttalam, Hambantota, Matara, Colombo, Kalutara, Jaffna,

⁸ <https://www.srilankabusiness.com/exporters-directory/boat-ship-building-exporters-in-sri-lanka/>, accessed on 18.04.2024

⁹ <https://www.fisheriesdept.gov.lk/boat-building-yards/>, accessed on 18.04.2024

Trincomalee, Batticaloa, Mulativu, and Manar. The country already builds multipurpose platform supply vessels, anchor handling & supply vessels, crew boats, passenger vessels, harbour berthing/ towing tugs, naval/ coast guard vessels, landing crafts, firefighting vessels, fishing vessels, yachts, pleasure and leisure boats, fishing boats, sports boats, rescue boats, coast guard boats, patrol boats, fast attack crafts, and general purpose vessels.¹⁰

During the last 10 years from 2014, Sri Lanka's annual exports from the boat and ship building sector exceeded USD 60 million for most of the decade. In addition to the dips in the period of the pandemic during 2020-2022, exports from the boat and ship building sector declined to around USD 26 million in 2018. In 2023, Sri Lanka earned over USD 78 million from exports from the boat and ship building sector.¹¹

As identified in the "Industry Capability Report on the Boat and Ship Building Industry" by the Export Development Board, Sri Lanka's boat and ship building industry lacks the necessary facilities to build larger boats over 20 meters which are in demand. As a result, the country has been unable to capitalize on the booming global yacht market, and several local boat and ship builders have relocated operations abroad, particularly, to the United Arab Emirates, in pursuit of the facilities and incentives unavailable in Sri Lanka. This has resulted in an estimated annual loss of over LKR 6 billion in potential revenue from value-added activities within Sri Lanka.

3.0 Potential of boating as a life style in Sri Lanka

Based on the 2019 Household Income and Expenditure Survey, the richest 10% of Sri Lanka had a mean monthly income of LKR 276,889. As an average family in Sri Lanka spends LKR 63,130 on food and non-food expenditure, a household in the richest 10% of Sri Lanka, representing about 570,000 households, is expected to have LKR 213,759 for luxuries and investment.

If a leisure boat is assumed to cost LKR 7 million¹² and assuming, as for vehicles, a bank loan for boats can be obtained for a 7-year period at an interest rate of 16% per annum,

¹⁰ https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/Winning_Industries_Boat_and_Ship-Building.pdf, accessed on 05.04.2024

¹¹ Industry Capability Report - Boat & Ship Building Sector, Export Development Board, Sri Lanka, February 2024

¹² <https://ikman.lk/en/ad/boat-frp-36-foot-single-engine-for-sale-colombo>, accessed on 12.12.2024

the total payment for the boat with interest is LKR 10,966,667. Averaging this over the loan period results in a monthly investment of LKR 130,556. Therefore, owning a leisure boat is a feasible investment for the richest 10% of Sri Lanka.

Apart from ownership, the richest 10% of Sri Lanka can be influenced to invest in leisure boats to charter them to tourists and locals. This market segment is yet to be adequately explored in Sri Lanka. Given that cruising experiences in Sri Lanka start from LKR 12,600 per person¹³, the charter market is expected to be within the purchasing power of 1,710,000 households in Sri Lanka, representing the richest 30% of the households. In addition, tourist arrivals to Sri Lanka exceeded 1 million in the years 2023 and 2024. Tourists can be attracted to the higher-end and private cruising packages.

4.0 Sri Lanka as a premier destination for nautical tourism

A. Tourism in Sri Lanka

Tourist arrivals to Sri Lanka has been on continuous rise from 2010 to 2019 after which the sector has been affected by the fears of terrorism and the Covid-19 pandemic. As travels rebounded after the pandemic, in 2023 over 1.4 million tourists arrived to the country. Continuing with this recovery, tourist arrivals during the first 10 months of 2024 exceeded 1.5 million. With 93.56% of tourist arrivals in 2023, Bandaranaike International Airport at Katunayaka was the dominant port of arrival. In 2023, Mattala International Airport had 4.78% of tourist arrivals and Galle and Colombo Harbours received 0.7% and 0.3% tourist arrivals, respectively. On average a tourist stayed in Sri Lanka for 8 nights in 2023 with the shortest and longest nights of stay being 6 and 12, respectively. 57.3% of the tourist arrivals to Sri Lanka in 2023 was for pleasure/vacation.

Despite the recovery, tourist arrivals by sea continues to lag. Prior to the pandemic, the average annual tourist arrivals by sea stood at about 90,000 in the years 2018 and 2019. Only about 24,000 tourists arrived by sea in the first ten months of 2024 compared to the 40,000 tourists arrivals by sea in 2023. At this pace, Sri Lanka is expected to report a 34.6% YoY decline in tourist arrivals by sea by the end of 2024. Therefore, without any investment, Sri Lanka is not expected to return to the pre-pandemic level of tourist

¹³ <https://www.sail-lanka-charter.com/special-offers/resident/>, accessed on 12.12.2024

arrivals by sea for another decade, unless tourist arrivals by sea grows at a CAGR exceeding 12% over 2025-2034.

Significant regional disparities in tourism infrastructure development limits the sector from reaching its full potential. With 21 hotels and 8,973 rooms, Galle district ranked second in rooms availability, following Colombo district with 42 hotels and 9,545 rooms. Despite having pristine beaches, Trincomalee and Jaffna districts have not adequately enhanced their room capacities. Notably, in 2023 the Northern Province had neither five-star nor four-star hotels, indicating a significant gap in the development of luxury tourism infrastructure in this region.

B. Nautical tourism in Sri Lanka

For maritime experiences, Sri Lanka already offers whale watching, particularly off the southern coast near Mirissa where both blue whales and sperm whales are frequently sighted. Scuba diving and snorkelling enthusiasts have the opportunity to explore the vibrant coral reefs, shipwrecks, and the diverse marine life. Water sports, such as, surfing, kitesurfing, and kayaking are also popular in several parts of the island coast. Complementing sustainable nautical tourism is the country's marine protected areas.

To become a destination for nautical tourism, Sri Lanka needs to offer a unique blend of adventure, relaxation, and maritime experiences. The possible destinations for immediate consideration for nautical tourism are Colombo, Galle, Mirissa, Weligama, Arugam Bay, Passikudah, Trincomalee, and Jaffna. Apart from being ideal stops for sea navigation, these destinations can be seamlessly integrated with inland experiences to create a compelling and diverse package for maritime tourists for longer stays over 2 weeks. As a result, the current average stay of 8 nights can increase to 10–11 nights or more. The combination of nautical activities with cultural, historical, and natural experiences on land also makes Sri Lanka a unique destination.

Image 5: Possible itinerary for nautical tourism from Colombo to Jaffna



Source: Author drawn itinerary on an image from Pinterest

5.0 Increasing export revenue to Sri Lanka from the boat and ship building industry

Increasing export revenue from the boat building industry requires infrastructure to build larger and more profitable boats which are in demand, and boosting boating, yachting, cruising, and nautical sports in the country by promoting Sri Lanka as a premier destination for nautical tourism.

At the top of providing facilities to the boat building industry is the provision of a shipyard. The proximity of a shipyard to sea is important owing to the size of the large boats which makes it uneconomical to take them a long distance by road to a slipway. Therefore, without any hindrance to the proposed “Galle Port Development Plan”, which consists of mix development with facilities for tourism and leisure, the use of Galle harbour as a shipyard with a slipway is considered in this proposal. In addition, this

proposal has incorporated the proposed shipyard and slipway by the Export Development Board at Kapparatota¹⁴.

Promoting Sri Lanka as a destination for marine tourism requires development of marinas. A marina can range from simple public facilities, such as, slipways or floating pontoons to the development of sophisticated marina complexes comprising of hotels and residential and retail buildings. Marinas with sufficient berths to meet the demands of the catchment population and the visiting boats, and specific berths and deep pockets for exceptionally deep drafted boats are at the forefront of the necessary development to benefit from this industry. As yachting adventurers are mostly attracted to clean water and marine life, operating marinas sustainably is important. As in the Feasibility Study by Lanka Hydraulic Institute Ltd for the Export Development Board on *“Provide Launching and Berthing Facility for the Boat Building Industry by Constructing Breakwater Structure at Kapparatota Landing Site to Make a Calm Basin”*, this proposal considers only marinas with simple infrastructure for mooring.

A. Development of Galle harbour

Galle harbour, which has a capacity of 05 alongside berths at Cloisenburg jetty, new pier, and new pier/cross of lengths 420 meters, 162 meters, and 84 meters, respectively, has a total land area of 16 hectares. With the opening of the Hambantota harbour, this historic harbour lost its prominence as a cargo port and its handled tonnage plummeted 20.98% annually during 2016-2023 from 780,000MT in 2016 to 150,000MT in 2023. As a result, in 2023 with a YoY increase of 19%, revenue from other services at Galle harbour comprised 69% of its total revenue. Remarkably, revenue from stevedoring to the harbour in 2023 was only 1% of its total revenue. This loss of port services to the larger ports in Colombo and Hambantota which attract large-scale industry and business related port services is recognized in the Cabinet Papers No. CP21/1570/328/025 dated 25.08.2021 and No. CP23/1379/628/068/TBR dated 28.07.2023.

¹⁴ Study by Lanka Hydraulic Institute Ltd for the Export Development Board to Provide Launching and Berthing Facility for the Boat Building Industry by Constructing Breakwater Structure at Kapparatota Landing Site to Make a Calm Basin, September 2019

It is in this context we suggest that, without any hindrance to the proposed Galle Port Development Plan, the Galle harbour be developed as a marina cum shipyard to make commercial use of the undeveloped land at the harbour.

A.1 Development of Galle harbour as a marina

Due to the natural rock bed at Galle Harbour, vessels exceeding 10,000MT are unable to access the port. Therefore, cruise ships, which typically weigh over 60,000MT, cannot dock at Galle harbour. As the Galle Port Development Plan includes channel dredging and further development to the side of Dewata Beach, coinciding with it this proposal suggests that the Galle harbour be primarily a yacht marina.

The development of Galle harbour as a marina requires the improvement of seawater quality in the vicinity of the harbour which is contaminated owing to the diversion of sewage discharge to the sea. To increase the attraction of the harbour as a marina, sewage treatment plants need to be installed to maintain seawater quality at a level healthy for marine life and to remove the foul smell of the contaminated water. Such a sewage treatment plant with a capacity to treat 100 gallons of water per minute by removing biological contaminants and oil/grease is expected to cost a minimum of USD 500,000¹⁵. It is expected that the improvement of seawater quality in Galle harbour will require at least 3 such units resulting in an estimated total investment of USD 1.5 million as capital expenditure and an estimated USD 100,000 annually for maintenance.

Other solutions which can be pursued include having trash skimmers or nets to collect debris, plastics, and waste from the waterways and installing real-time water quality sensors for continued monitoring of the water quality in the marina for contaminants. A trash skimmer can cost USD 40,000¹⁶ or more and the price of a Smart Real-Time Monitoring Multi-Parameter Water Quality Buoy is between USD 1,500 and USD 5,000¹⁷.

Through our discussions with the private sector, we identified their interest to finance environmental and conservation-related activities under their CSR initiatives. Other immediately possible financing options include the following.

¹⁵ <https://samcotech.com/cost-wastewater-treatment-system/>, accessed on 17.04.2024

¹⁶ <https://julongdredger.en.made-in-china.com/product/RFvGoNxyLwUL/China-Hot-Sale-Trash-Skimmer-Water-Lotus-Harvesting-Boat-for-Port-Lake.html>, accessed on 05.12.2024

¹⁷ <https://shkuosi.en.made-in-china.com/product/RnFryLOMlcWK/China-Factory-Price-Smart-Real-Time-Monitoring-Multi-Parameter-Water-Quality-Buoy.html>, accessed on 10.12.2024

- **Public Private Partnerships** - Yacht charter operators and the Galle Municipal Council can partner to share the cost of having sustainable water cleaning systems.
- **Eco-Tourism Partnerships** - As the development of the Galle harbour as a marina is equally beneficial for the Sri Lanka Tourism Development Authority (SLTDA), the Sri Lanka Ports Authority (SLPA) can have an eco-tourism partnership for financing with the SLTDA.
- **Pay for ecosystem services (PES) under the Galle Municipal Council** - Given seawater cleaning has private and public benefits, a PES mechanism can be introduced whereby the private beneficiaries, such as, the SLPA, SLTDA, yacht owners, yacht charter operators, fishermen, hotels, tour operators, etc. who benefit from the development of the marina subsequent to the cleaning efforts pay for its cleaning. Payments under the PES agreement can be based on the resulting benefits and the ability to pay in order to receive, for example, lesser payments from the fishermen and higher payments from hotels.

The development of the Galle harbour as a marina requires the relocation of the cement grinding, blending, mixing, packing, dispatching, and storing facility currently located at the harbour under a 30-year lease from 31 March 2017. The indenture for the lease includes provision requiring the Sri Lanka Ports Authority, as the lessor, to provide an alternative port to the lessee if the leased premises are needed for any national development purpose of the Galle Port. Accordingly, the lessee is entitled to continue their operations at the alternative port under the prevailing terms and conditions for the remainder of the lease period.

In addition, as the proposed development plan for Galle harbour is a marina cum shipyard, a pedestrian bridge is required to be constructed for tourists arriving by sea to navigate easily to the mainland. It is expected that a pedestrian bridge of 1 kilometre in length would cost about LKR 300 million to construct in steel. The expected annual maintenance cost to lubricate bearings of this pedestrian bridge is LKR 250,000.

A.2 Rehabilitation of the breakwater at Galle harbour

The proposed Galle Port Development Plan, which includes construction of breakwater, deep water passenger berth, revetment, seawall, and channel dredging, has also recognized the rehabilitation of the existing breakwaters that are in a dilapidated

condition. The estimated cost of this rehabilitation is USD 25 million after adjusting for inflation in the construction sector¹⁸ and exchange rate movement from 2021.

A.3 Development of existing premises of Galle harbour as a shipyard

The undeveloped land in Galle harbour spanning across 16 hectares under the Sri Lanka Ports Authority can be used for shipyards as warehouses under Sections 69 and 84A of the Customs Ordinance, No. 17 of 1869. The size of a shipyard required to manufacture a 60-80 feet boat is 2 acres and the required width of the road network to the common slipway in the harbour is expected to be 40 feet. It is expected that the development of the required road network within Galle harbour would cost about LKR 34 million. By using 4.8 hectares, 6 shipyards of 2 acres each can be established to add 60 boats of 60-80 feet from each shipyard to the industry capacity.

It is observed that in 2017 Sri Lanka Ports Authority leased out about 20,000 square feet of its land for LKR 19.2 million subject to an increase of 8% every five years. Based on this lease rental, it is expected that Sri Lanka Ports Authority can lease out each 2-acre block of this proposed shipyard at the rate of LKR 90 million per annum (equivalent to about USD 300,000¹⁹) to an industry player who could potentially generate an additional annual revenue exceeding USD 10 million at full capacity through the proposed shipyard. It is assumed that all proposed 6 shipyards will be purchased by existing boat builders in the country. As the construction of a mould for a 60-80 feet vessel takes up to 2 years, exports from the shipyard will commence only from the third year of the lease.

B. Development of Weligama Bay

Weligama Bay, the largest bay in Sri Lanka, is a popular tourist destination with amenities for windsurfing, kitesurfing, whale watching, diving, snorkeling, sea kayaking, and boat riding. Export Development Board has already designed a development plan to build a launching and berthing facility for the boat building industry in Kapparatota with a 5-acre land in close proximity identified for shipyards. Apart from a restaurant, sanitary facilities and parking space, this plan includes a floating jetty to berth whale watching boats, glass bottom boats, leisure boats, and yachts. The estimated cost of developing

¹⁸ Pg. 24 of the Bulletin of Construction Statistics, Volume 33 - December 2023, Construction Industry Development Authority

¹⁹ Calculated at the exchange rate of LKR 294.50 per USD.

Kapparatota under this plan is about LKR 1.4 billion²⁰ after adjusting for inflation in the construction sector. It is expected that the land identified for shipyards can house two shipyards of 2 acres each, thereby, increasing the annual industry capacity to manufacture 60-80 foot boats by a further 120 boats. As logistics arrangement from the proposed shipyard at Kapparatota to the slipway is not as straightforward as for the proposed arrangement at Galle harbour, lease rental from the shipyards at Kapparatota is expected to be 20% lesser than at Galle harbour.

In addition to this development at Kapparatota, it is suggested that Weligama Bay be developed as a sophisticated yacht/superyacht marina targeting nautical tourism. The large size of the bay allows an array of recreational marine activities and anchoring multiple yachts simultaneously in this postcard-view bay. Demarcation of areas of the bay for fisheries, slipways, and tourism allows an optimal use of the area, whilst protecting fishermen and other small entrepreneurs relying on the tourism industry. Attracting high net worth individuals in India to choose Sri Lanka as their yacht mooring destination, instead of Dubai where fees are excessive is also an opportunity to pursue.²¹ Though Galle harbour is considered for this, owing to the inherent issues with the restricted capacity of this harbour, Weligama bay could be a better option.

6.0 Competition to Sri Lanka as a marine tourism destination

In 2016, popular destinations in the Asia-Pacific region included only Thailand, Malaysia, Australia, Fiji, Tonga, and New Zealand²² with none of the South Asian countries making it to the list. In 2022, Indonesia was among the countries with most tourist arrivals by sea and was the only country from the Asia Pacific region to have over 550,000 tourist arrivals by sea. In 2023, the Maldives was identified by yacht charter operators to be among the best yachting destinations with unique experiences.²³ The Maldives has 9

²⁰ Study by Lanka Hydraulic Institute Ltd for the Export Development Board to Provide Launching and Berthing Facility for the Boat Building Industry by Constructing Breakwater Structure at Kapparatota Landing Site to Make a Calm Basin, September 2019

²¹ <https://economynext.com/sri-lanka-marinas-to-entice-rich-indians-to-park-yachts-minister-147041/>, accessed on 13.07.2024

²² Sevinc, Figen and Guzel, Tulay, "Sustainable Yacht Tourism Practices", Management & Marketing, Vol. XV, issue 1/2017.

²³ <https://www.seayachtgroup.com/best-and-most-unique-destinations-for-superyacht-adventure-2023-top-5/>, accessed on 13.07.2024

harbours, anchorages, and marinas.²⁴ The other destinations in the Indian Ocean for the yacht charter operators are the Seychelles and Mauritius.²⁵

Southeast Asia has become increasingly popular as a solid yachting destination benefitting from the shifted focus of the yachting adventurers from the earlier popular destinations in the Mediterranean and Caribbean seas. It is observed that presently many cruises are unavailable with Sri Lanka in their itinerary which explains the country's lower tourist arrivals by sea. Among the few available cruises, following itineraries²⁶ are connecting Sri Lanka and India with the popular Southeast destinations. Both these itineraries have Colombo and Hambantota as their port of call on their cruise route.

Duration of the Journey	Itinerary	Onboard	Departure
12-14 Nights	India, Sri Lanka, and Thailand	Singapore, Singapore	Mumbai (Bombay), India
12-14 Nights	India, Sri Lanka, and Thailand	Mumbai (Bombay), India	Singapore, Singapore

This is vastly different from the context in the Maldives which is about 530 nautical miles away from Sri Lanka and is reported to have had 20 superyachts in the country in January 2023. These superyachts included 65-metre Feadship superyacht Tanusha, 85-metre SilverYachts superyacht Wanderlust, 47.5-metre ISA Yachts superyacht Aquamarina, and the Benetti superyacht Silver Angel. As cruises to Sri Lanka are limited, repositioning Sri Lanka as a premier destination for nautical tourism requires attracting yacht charterers to have Sri Lanka in their itineraries.

²⁴ <https://www.harbourmaps.com/en/harbours/region/maldives>, accessed on 13.07.2024

²⁵ <https://www.fraseryachts.com/en/destinations/indian-ocean-yacht-charter/>, accessed on 13.07.2024

²⁶ <https://www.celebritycruises.com/int/destinations/asia-cruises/southeast-asia-cruises>, accessed on 13.07.2024

Image 6: Superyachts to the Maldives in January 2023

Tanusha	Wanderlust
 <p>A large white and gold superyacht with multiple decks and a prominent radar dome, sailing on the ocean at dusk. The text 'SUPERYACHT TIMES' is visible in the bottom left corner of the image.</p>	 <p>A white superyacht with a dark upper section, sailing on the ocean under a cloudy sky. The text 'SUPERYACHT TIMES' is visible in the bottom left corner of the image.</p>
Aquamarina	Silverangel
 <p>A white and blue superyacht with a sleek design, sailing on the ocean. The text 'SUPERYACHT TIMES' is visible in the bottom left corner of the image.</p>	 <p>A white superyacht with a dark upper section, sailing on the ocean at sunset. The text 'SUPERYACHT TIMES' is visible in the bottom left corner of the image.</p>

7.0 Financial analysis for the proposal

Envisaged total capital expenditure for the proposed developments at Galle harbour and Kapparatota is LKR 9.7 billion and the annual maintenance expenditure is expected to be LKR 30 million. It is expected that the development of the infrastructure at these sites will be completed in 2024, allowing leasing out of the proposed shipyards from 2025. The development of these marinas is expected to bring an additional revenue of LKR 26 million in the next five years to Sri Lanka Ports Authority through light dues, entering dues, pilotage, tug services for cruise ships, dockage, and fresh water supply. The expected average distribution between yachts and cruise ships over 2025-2030 in this proposal is 90:10. Our analysis considers the average number of tourists per yacht to start from 6 and increase to 8 at the end of the forecast period and the average number of tourists per cruise to start from 100 and to reach 400 at the end of the forecast period.

Complementing the arrival of yachts and cruises is a LKR 1.5 billion spending on a tourism campaign to reposition Sri Lanka as a premier destination for nautical tourism. Yacht/cruise tourism to Galle harbour and Kapparatota are expected to commence from 2025 after the completion of the necessary development in these locations in 2024. It is

expected that with the development of the Weligama Bay alongside the proposed development of the marinas, Sri Lanka will be able to attract 15,100 additional tourists by sea in the next five years. This is a 22.6% CAGR over 2025-2030. A tourist to the marinas is initially expected to spend on average 8 nights in the country and this is expected to gradually increase to 12 nights.

It is noteworthy that, though on average a tourist in Sri Lanka spends between USD 160 and USD 180 a day, the Sri Lanka Tourism Promotion Bureau targets tourists with a daily spending between USD 500 and USD 600²⁷. However, this proposal considers a daily spending of only USD 160 owing to a lack of data on the specific behavioural patterns of Sri Lanka's tourists arrived by sea. The expected additional revenue from tourism over the next five years is LKR 7 billion.

Assuming that all 8 locations identified for shipyards in this proposal will be used by the boat builders in Sri Lanka, it is expected that during the next 5-year period, the lease rental from the shipyards will amount to LKR 3.4 billion. The largest portion of this revenue which is LKR 2.7 billion is expected to accrue to the Sri Lanka Ports Authority driven by both the higher number of shipyards and the higher lease rental. In addition, through light dues, licence fee, and occupation of slipways, Sri Lanka Ports Authority is expected to earn LKR 20 million over the period of the financial analysis from berths from the shipyard.

It is expected that the construction of a mould for a 60-80 feet boat will cost LKR 20 million each and this financial analysis has considered a scenario where each shipyard will have only one such mould. This financial analysis assumes that by the end of the forecast period only 20% of the shipyards' capacities will be in use as the period of analysis covers only 3 years of exports; having utilized the first two years to construct the moulds. The average export revenue per 60-80 feet boat is expected to be USD 1 million. Import content of these exports is expected to be 40% of export revenue; making within country value addition to be 60% of export revenue. Within country value addition during the period under the financial analysis is expected to be LKR 30 billion.

²⁷ <https://asia.nikkei.com/Business/Travel-Leisure/Sri-Lanka-eyes-tourism-boom-in-2024-via-slick-ads-digital-nomads>, accessed on 13.07.2024

The bond rate in Sri Lanka over the last 6 months has ranged between 11.28% (for 8-year bonds) and 13.98% (for 5-year bonds). Taking the simple average of these rates, interest cost on the capital expenditure and the cost of the tourism campaign is calculated at the expected interest rate of 12.63%. This interest rate is used to arrive at the discount factor for the Net Present Value (NPV) and Internal Rate of Return (IRR) calculations of this financial analysis. The NPV for this proposal is LKR 8.2 billion and the IRR is 13.88%. The largest and the most sensitive inflows are within country value addition through the shipyards and earnings from tourism which together amounts to LKR 36bn at the exchange rate of LKR 294.50 per USD 1. This financial analysis is provided below.

Financial Analysis

<i>LKR</i>	2025E	2026E	2027E	2028E	2029E	2030E
Investment on sewage treatment plants	(441,750,000)					
Annual maintenance of the sewage treatment plants			(29,450,000)	(29,450,000)	(29,450,000)	(29,450,000)
Construction of a pedestrian bridge to exist the Galle harbour - steel	(289,788,000)					
Annual maintenance of the pedestrian bridge			(250,000)	(250,000)	(250,000)	(250,000)
Rehabilitation of the breakwater at Galle harbour	(7,661,145,226)					
Sanitary facilities for tourists	(1,000,000)					
Kapparatota development	(1,338,192,011)					
Construction of the road network within the SLPA land - Galle	(33,900,000)					
Lease rental from the shipyard to the SLPA		541,956,096	541,956,096	541,956,096	541,956,096	541,956,096
Lease rental to the shipyard in Kapparatota		144,521,626	144,521,626	144,521,626	144,521,626	144,521,626
Revenue to SLPA from berths from the shipyard				1,784,670	6,900,724	11,421,888
Revenue to SLPA from passenger boats and cruise ships		2,794,334	3,400,415	5,047,259	7,104,047	8,522,123
Within country value addition from the boat industry		(80,000,000)	(80,000,000)	2,650,500,000	10,248,600,000	16,963,200,000
Tourism campaign		(400,000,000)	(400,000,000)	(300,000,000)	(200,000,000)	(200,000,000)
Earnings from tourism		197,904,000	494,760,000	1,272,240,000	2,120,400,000	2,850,760,000
Interest payment		(1,422,867,412)	(1,422,867,412)	(1,422,867,412)	(1,422,867,412)	(1,422,867,412)
Total	(9,765,775,237)	(1,015,691,357)	(747,929,276)	2,863,482,238	11,416,915,080	18,867,814,320
Cost of capital	12.63%					
Discount factor	1.0000	0.8879	0.7883	0.6999	0.6214	0.5517
Present value	(9,765,775,237)	(901,794,688)	(589,593,063)	2,004,159,313	7,094,673,834	10,410,010,633
Net present value	8,251,680,793					
IRR	13.88%					