FINANCE OUTLOOK

II VOLUME

NOVEMBER 2022

CYBERSECURITY
IN FINANCE AND WHAT YOU SHOULD KNOW

SRI LANKA'S RECOVERY
FROM THE CURRENT ECONOMIC CRISIS, AND HOW THE INSURANCE INDUSTRY CAN CONTRIBUTE TOWARDS THIS RECOVERY.

SUSTAINABLE FINANCE
GREEN BONDS AND WAY FORWARD

NAVIGATING THE TURBULENT TIMES
A RISK MANAGEMENT PERSPECTIVE ON "SRI LANKA'S RECOVERY FROM THE CURRENT ECONOMIC CRISIS".

Department of Finance
Faculty of Commerce and Management Studies
University of Kelaniya

CONTI

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ARTICLES

FINANCE OUTLOOK

VOLUME II | NOVEMBER 2022

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DEPARTMENT OF FINANCE
FACULTY OF COMMERCE AND MANAGEMENT STUDIES
UNIVERSITY OF KELANIYA

MESSAGE FROM THE HEAD OF THE DEPARTMENT

It is a great pleasure to convey my best wishes to the second volume of the "Finance Outlook" business magazine published by the Finance Students' Association (FinSK) of the Department of Finance (DFin), University of Kelaniya. "As becoming the most progressive and diverse department in the Faculty of Commerce and Management Studies, it offers four-degree programs in the streams of Finance, Banking, Insurance, and Financial Engineering. The Department of Finance, a forerunner in innovation and the most dynamic department in the University of Kelaniya, moves forward to educate the next generation of business leaders passing through creative, innovative thinking and practical knowledge.

Finance Outlook Magazine" is one of the key products of the FinSK under Investment Week 2022/23, one of the flagship events in the annual activity calendar of the Department of Finance. The main objective of the magazine is to create a common platform to share academic and industry insights on contemporary business issues. I firmly believe that the business magazine "Finance Outlook" offers great insights into overcoming the current economic crisis in Sri Lanka. The magazine "Revive Sri Lanka" aims to address the economic and financial crisis faced by economic sectors while managing current and future strategies to overcome the situation. The articles represent diverse sectors, including finance, banking, insurance, supply chain, SME, exports, and apparel. I firmly believe that this business magazine will allow the readers to engage in discourse and explore strategies to cope with the challenges brought on by the current economic crisis.

I want to express my gratitude to the editorial board and the Finance Students' Association for their enormous support in launching the publication of the business magazine "Finance Outlook". I sincerely believe this publication will significantly aid a large audience, and I would like to extend my warmest congratulations for their tremendous effort.

PROF. R. ABEYSEKERA
HEAD, DEPARTMENT OF FINANCE
FACULTY OF COMMERCE AND MANAGEMENT STUDIES
UNIVERSITY OF KELANIYA

MESSAGE FROM THE EDITOR IN CHIEF

It is an honor and a privilege for me to bring this message to you as the Editor-in-Chief of the second volume of the “Finance Outlook Magazine”.

The Department of Finance exposes its undergraduates to a variety of opportunities beyond the core curriculum and is committed to developing graduates who are equipped with the knowledge and skills necessary to respond to the changing demands of the corporate world. “Revive Sri Lanka” the Finance Outlook Business Magazine is a noteworthy accomplishment of the Finance Students’ Association (FinSK), Department of Finance (Dfin) the University of Kelaniya. Since its inception in 2021, the Finance Outlook Magazine is a magazine issued annually by the Department of Finance of the University of Kelaniya in line with the Department’s flagship event “Investment Week”.

As Sri Lanka is experiencing an economic and financial crisis, the business world looks for novel, implementable, yet credible insights to find new ways to overcome this crisis and restore the country. In response, the Finance Outlook Magazine will provide a co-creation platform to all stakeholders including academicians and professionals in the corporate world.

On behalf of the editorial board, I would like to extend my sincere appreciation to the prominent corporate personalities for sharing their knowledge and experiences. Further, I would like to thank the academic staff members of the Department of Finance for their unwavering contribution and encouragement to the development of the "Finance Outlook" business magazine. I strongly believe that the Finance Outlook Magazine serves as a great platform for a wider audience in academia and offers a robust discussion for both academics and practitioners to exchange ideas and seek out new strategies to overcome the current economic and financial crisis.

MS. S. L.. SUDASINGHE
LECTURER, DEPARTMENT OF FINANCE
FACULTY OF COMMERCE AND MANAGEMENT STUDIES
UNIVERSITY OF KELANIYA

MESSAGE FROM THE FINANCE STUDENTS' ASSOCIATION

We take immense pleasure in the launch of the second volume of the annual Business Magazine, the "Finance Outlook" for the year 2022, as the official student body of the Department of Finance. The Department of Finance at the University of Kelaniya enables undergraduates to enhance their knowledge and soft skills with the motive of crafting successful future corporate leaders. The Department of Finance arranges a variety of programs to help undergraduates improve their potential and bring out the best in them.

The flagship event of the Department of Finance; The Investment Week 2022 is an industry collaboration event enriched with a series of multitudinous events; the inter-department debate competition, inter-university Finance Quiz competition, capital markets workshops, financial technology workshop, financial literacy workshop, economic forum featuring experts from the banking, finance and insurance industries and an awards ceremony in addition to the launch of the second volume of the Finance Outlook Magazine.

The Finance Outlook Magazine is indeed a steppingstone for FinSK. Through the Finance Outlook Magazine, we have been able to gain further exposure into several industries including the Finance, Banking and Insurance industries which are our main focus areas. The Finance Outlook Magazine features several articles authored by undergraduates under the guidance of lecturers and by professionals from various industries. The second volume of the magazine was themed "Revive Sri Lanka" attempting to put forth a forward-thinking attitude and direct society's focus towards recovering Sri Lanka from the current economic crisis. Hence, this magazine uncovers a profound selection of articles that rather serve as an eye opener, with views and insights coming from some of the very best in the industry.
We hope this magazine will contribute to construct society with good knowledge and deepen the reader's understanding of real-world issues that must be addressed and resolved. We hope to come out with more noteworthy topics in our future releases.

UNIVERSITY OF KELANIYA

Encouraging the growth of innovative and creative thinkers and contributing to the advancement of the Nation, the University of Kelaniya is one of the most prestigious universities with a long tradition of pursuing excellence. It was initially established in 1875 as the "Vidyalankara pirivena" by Ven. Ratmalane Sri Dharmaloka Thera as a center of learning for Buddhist monks. The name was later changed to "Vidyalankara University" in 1959, and in 1972, it became the "Vidyalankara Campus of the University of Ceylon", and finally, in 1978, it took on the name University of Kelaniya. The University is set up among 7 faculties, 56 departments, 3 affiliated institutions, and 26 units and centers, providing students with numerous pathways to explore their interests by using the wide range of facilities the state provides. It should also be mentioned that the university, being a facility for both graduate and undergraduate study, with a student population of around 13798 is a community rich in culture and inclusion with equitable learning opportunities.

Furthermore, the university is committed to improving student life in numerous ways and also to supplementing academic learning. Having established solid relationships with the business community throughout the years to enhance the quality of the education offered, the sports facilities, career guidance programs, as well as arts and cultural facilities help students to strike a balance between their studies and social lives. The University of Kelaniya, which is atop Sri Lanka's list of green universities has been engaged in green initiatives continuously to achieve sustainable green development and has also been able to grow through time, broadening its horizons in a variety of ways.

While attempting to open up new avenues through analysis, innovation, and insight, the University of Kelaniya appreciates the importance of the role of research for the expansion of new knowledge, through the implementation of a solid research culture. The institution is notably focused on advancing research throughout a wide range of fields of study, including commerce, management studies, humanities, medicine, science, and social sciences. The University of Kelaniya's Ethics Review Committee was founded in 2016 to foster high-caliber research and is committed to upholding the highest ethical standards as reflected in its vision and mission. Several facets of research ethics are covered by the ERC at the University of Kelaniya for studies done by the faculties of Business and Management, Computing and Technology, Graduate studies, Humanities, Science, and Social sciences. It should also be mentioned that the University of Kelaniya is currently working toward its objective of being a center of excellence in the creation and dissemination of knowledge for sustainable development, and by the year 2023, it hopes to become an internationally recognized research university.

P.G.L.C. Jayatissa
First Year Undergraduate
Department of Finance

Ms. A.D.W. Yapa
Lecturer
Department of Finance.

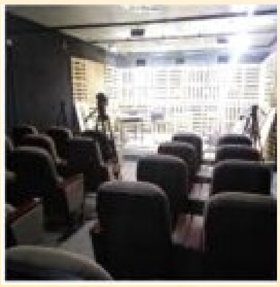
FACULTY OF COMMERCE AND MANAGEMENT STUDIES

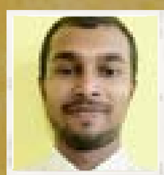
Regarding the calibre of its graduate output, its competent professors, and its wide range of undergraduate and postgraduate programs, the Faculty of Commerce & Management Studies (FCMS) is one of the best and fastest-growing faculties at the University of Kelaniya as well as in the entire nation.

FINANCE OUTLOOK

In 1976, the University of Kelaniya established the Department of Commerce under the Faculty of Social Sciences. This marked beginning of the faculty of commerce and management studies. Its first master's degree program Master of Commerce was offered in 1986. Later, in 1995, it attained faculty status and quickly developed to position as one of the University's most illustrious faculties today. The faculty is dedicated to providing the opportunity for learners to develop the knowledge, talents, and attitudes necessary to serve the nation while honouring human dignity.

The Faculty of Commerce and Management Studies (FCMS) is made up of five academic departments: the Department of Commerce and Financial Management (DCFM), the Department of Human Resource Management (HRM), the Department of Accountancy (DoA), the Department of Marketing Management (DMM), and the Department of Finance (DFin). FCMS has a total of 14 undergraduate degree programs, two external undergraduate degree programs, two postgraduate diploma programs, five higher diploma programs, four diploma programs, seven certificate courses, six master's degree programs, and a Doctor of Business Administration program. These programs combine academic objectives with industry-focused education. These degree programs are aimed at providing a piece of comprehensive knowledge on both theoretical and practical aspects while maintaining both the essence of the degree program as well as the world-renowned standard. The FCMS employs a method of instruction that combines knowledge, wisdom, and solutions with teamwork. Student organizations, community service initiatives, and student-organized activities foster a sense of cooperation and innovative problem-solving while providing opportunities for students to realize their full potential and training workers who are adaptable and prepared to take on the challenges that will be presented to them in the real world. The FCMS has modified to an e-learning environment in response to modern demands to maintain unbroken teaching and learning procedures. The FCMS provides students with the luxury of smart classrooms, a new incubation center, an Av studio, as well as an innovation lab, encouraging the adaption to modern technology and invention.





R.P.G.L.C. Jayatissa
First Year Undergraduate
Department of Finance

Ms. A.D.W. Yapa
Assistant Lecturer
Department of Finance.

DEPARTMENT OF FINANCE

The Department of Finance (Dfin), which belongs to the Faculty of Commerce and Management Studies (FCMS), has become the most progressive and diverse Department in the University. The Department addresses the gaps in the financial services industry, offering four-degree programs in the streams of Finance, Banking, Insurance, and Financial Engineering. The Department of Finance at the University of Kelaniya has become increasingly popular since its inception 11 years ago in the year 2011. Finance has become very important in the modern world and has a great demand among employers and students.

Before the inception of the Department of Finance, the Finance Study Unit, which was created to supplement the Bachelor of Business Management (Special) Degree in Finance offered by the Department of Accountancy, prevailed in a small scale. Due to the rapid growth and demand in the field of Finance, the Finance Study Unit was elevated to a whole Department, and the "Department of Finance" was created.

In 2013, just two years after the birth of the Department of Finance, the University of Kelaniya received CFA (USA) recognition, which was monumental as this was the first time a Sri Lankan University received this honor. In 2016, three new degree programs were added, which makes a total of four-degree programs under this esteemed Department. These degrees are, Bachelor of Business Management (Special) Degree in Finance, Bachelor of Business Management Honours in Insurance, Bachelor of Business Management Honours in Banking, and Bachelor of Business Management Honours in Financial Engineering. In 2018, The Department of Finance received an A grade for SER and commenced its Financial Engineering degree program, which then received CFA (USA) accreditation.

Another honorable accolade achieved by this Department is receiving the ISO 9001:2015 quality policy award, which defines that an organization has accomplished the international standard requirement for a Quality Management System with principles such as leadership, the process approach, and evidence-based decision-making. By enrolling 210 students in the degree programs, the Department has created an environment for undergraduates to enhance their academic knowledge while facilitating each student to improve their professional skills. Additionally, the Investment Research Unit provides the opportunity for undergraduates to pursue their analytical skills with the help of lecturers and corporate world professionals. Among the four-degree programs offered by the Department of Finance, the Bachelor of Business Management (Special) Degree in Finance was the first to be produced. It attracted an enormous demand in the finance industry both locally and internationally as a degree program that aligns with the industry requirements and standards. The curriculum meets international standards and includes not only coursework but also workshops, field trips, discussions, and other activities to broaden the undergraduates' knowledge. A memorandum of Understanding was signed between The Department of Finance at the University of Kelaniya and CFA Sri Lanka in 2022. The objective of signing the MoU with CFASL was to offer the "CFA Society Sri Lanka" Gold Medal for the most outstanding graduate who obtained the first class in the B.B. Mgt. Honors in Finance program. Further, CFASL will make an annual cash award of Rupees Hundred Thousand (Rs. 100,000) as a scholarship to the student described above. The CFASL will also provide a career mentorship program for students who are keen to build a career in the capital market space.

The Insurance industry is one that has seen rapid growth. Therefore many students have become keen on following a degree programme that provides them with the necessary knowledge to enter this industry. To meet this need of students, the Department of Finance has added a Bachelor of Business Management Honours Degree in Insurance which consists of modules such as Underwriting Management, Reinsurance, Risk Management in Insurance, Actuarial Valuation, Insurance Law, Insurance Claim Management, prepares them to compete in the market for the best job opportunities. As an incentive to students, an MoU was signed between the University of Kelaniya and Softlogic Life Insurance PLC on the 16th of March 2021. The MoU was signed to offer a "Gold Medal" for the best-performed student in the Insurance Degree program.

Further, this medal will be awarded as the "Softlogic Life Gold Medal Award" to the students who get the highest Grade Point Average (GPA) for the B.B.Mgt. Honors in Insurance Degree Program. An annual cash award of Rupees One Hundred Thousand (Rs. 100,000) as a scholarship to the graduate mentioned above having a First-Class Honors for postgraduate studies. Further, they will be offered a job as a Management Trainee at the Insurance Company subject to a probationary period and terms and conditions of such contract of management trainee and rules and policies of the Company.

The Bachelor of Business Management Honours Degree in Banking is a degree that focuses on developing the specific skills and knowledge required by a banker in undergraduates and is popular in the Department. Undergraduates are subjected to focus their attention on modules such as Credit Management, Treasury Management, International Banking, Microfinance, Investment and Development Banking, and Banking Law which fully equips them to enter the industry after four years of study. An MoU was signed between the University of Kelaniya and the Institute of Bankers of Sri Lanka on the 16th of March 2021. The MoU was signed to offer a "Gold Medal" for the best-performed student in the Bachelor of Business Management Honours in Banking Degree program. The event was hosted by the Department of Finance (DFin), Faculty of Commerce and Management Studies (FCMS). This gold medal will be awarded to the student with the highest Grade Point Average (GPA) for the B.B.Mgt.Honors in Banking Degree Programme. This would enhance the relationship among the public sector educational institution vs. private sector entities. The initiation is a vital step of the Banking Degree program, which was introduced in 2018.

The Department of Finance offers a Bachelor of Business Management Honours in Financial Engineering as its fourth-degree program. This degree program creates professionals in Risk management, Financial Model Building, and Product Development. The main objective of this degree is to equip students in Finance related skills to become readily employable graduates in financial services. A Memorandum of Understanding was signed between the Department and Acuity Knowledge Partners (Pvt)Ltd (ACUITY) as an incentive for the students studying Financial Engineering. The objective of signing the MoU with ACUITY was to offer the "Acuity Knowledge Partners Gold Medal Award" for the most outstanding graduate who obtains the first class with the highest GPA (GPA of 3.7 and above) in B.B. Mgt. Honors in Financial Engineering Degree programme. Further, ACUITY will make an annual cash award of Rupees Thirty Thousand (Rs. 30,000) as a scholarship to the student mentioned above.

As mentioned above, the Department has gone above and beyond to obtain Memorandums of Understanding, medals, and scholarships to award and give recognition to outstanding graduates who completed and performed well in their degree programs of the Department of Finance.

In addition to the specific Memorandums signed under each degree programme, two other ones were established too. To advocate the best performers, the Department of Finance and Colombo Stock Exchange signed an MoU in attaining to offer the "Colombo Stock Exchange Gold Medal Award" to the graduate scoring the highest marks for capital market-related subjects in the Finance degree program and a scholarship that awards Rs. 50,000 annually.

Secondly, an MoU was signed to uplift the soft skills of our undergraduates. As a result of this collaboration, Sandbox Consultancy Services Ltd will conduct a series of skill development programs for our students in all their academic years. This initiation is a vital step taken by the Department of Finance, Faculty of Commerce, and Management Studies to enhance collaboration with academia and the industry.

The Department of Finance also conducts a Diploma in Business Finance, which is a path that enables students to pursue a bachelor's or Master's degree in Finance. Students with an Advanced Level qualification in any subject or with equivalent qualifications are eligible to apply for this program, which is highly beneficial due to the Higher Diploma in Business Finance is identical to the second year of a bachelor's degree program. This Department is an "A" graded Department of Finance for quality and has received the "Teaching Excellence Award," which further illustrates the quality of teaching as well as the overall standard quality, which has resulted in the increasing number of graduates produced by the Department of Finance.

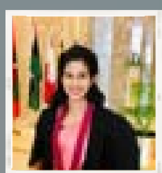
In the face of the Pandemic, the Department established a robust system of online learning and conducted assignments and exams through the LMS page in an organized manner. Furthermore, projects such as "Dfinity," "Dfin Beats," project "Shilpa," "Vaishakya Warnana" magazines have been successfully compiled by the students in the Department along with the continuous support of the lecture panel.

The "Investment Week", which is a signature event of the Department of Finance which, takes place for a week filled with informative sessions, an Inter-University Finance Quiz Competition, and the "Economic Insight" magazine launch.

The Department of Finance at the University of Kelaniya has seen tremendous growth. It is a testament to good quality education and a supportive environment for students to develop every aspect of themselves. The Vision of the Department is "To be a powerhouse of financial expertise which can push the boundaries of business thinking by providing internationally competitive human capital and to serve the expectations of the stakeholders, "while the mission of the Department is "To deliver first-rate finance education and contribute to the financial and economic development in Sri Lanka and other regions. In addition, Department of Finance is looking to prepare future business leaders and scholars for success in the field of Finance. Department of Finance strives to be at the forefront of knowledge through teaching, research, service, and outreach".

SINCE ITS INCEPTION, THIS DEPARTMENT HAS STRIVED TO MAINTAIN QUALITY AND A HIGH STANDARD OF EDUCATION BY PUTTING ITS VISION AND MISSION INTO ACTION AND CONTINUING TO IMPROVE EACH YEAR.

F. Salaama Sanoon
First Year Undergraduate
Department of Finance



Ms. R.P.S de Zoysa
Assistant Lecturer
Department of Finance.

"THE PULSE OF DFin"

- Finance Students' Association -

The Finance Students' Association of University of Kelaniya, is the lifeblood of the Department of Finance. Abbreviated as "FinSK", the association is the official, student-run organization of the Department of Finance, under the Faculty of Commerce and Management Studies, University of Kelaniya. Composed of undergraduates from all four academic years of the Department of Finance, the Finance Students' Association plays a prominent role in keeping the Department invigorated. Every move reflects the values and ethics the Department symbolizes, and inevitably, preserving and upholding the reputation of the Department is a responsibility that equally lies in the hands of the association. The Finance Students' Association was established in the year 2012. While the committee is annually elected from the second-year batch of undergraduates, every undergraduate of the Department of Finance is essentially a member of the Finance Students' Association.

FINANCE OUTLOOK

The Finance Students' Association opens doors to several opportunities for undergraduates to acquire knowledge and to develop and enhance the skills and competencies they require to thrive in the corporate sector. The association provides a platform for its members to advance their leadership, communication, inter-personal and decision-making skills. Being an active member of this association is a worthwhile experience that allows the undergraduates to immerse themselves in the activities of the Department and indulge in the splendor of university-life.

Several extracurricular activities are organized year-round by the Finance Students' Association under the constant guidance of the Department's academic staff. These activities include the celebratory events of the Department, webinars, seminar series, religious events, community projects, debate and quiz competitions, industry forums, etc. Engaging in these activities induces a sense of team spirit into the undergraduates' work ethic and prepares them to tactfully overcome the challenges of working under pressure in the real world.

A 10 YEAR RETROSPECT

Over the past decade, the Finance Students' Association has flourished to become one of the most outstanding associations of the Faculty of Commerce and Management studies, having achieved significant milestones along the way.

HAVING AN EXPANDING SOCIAL MEDIA PRESENCE

Apart from the webpage dedicated to the Finance Students' Association under the official website of the Department of Finance, FinSK has a social media presence on LinkedIn, Facebook and YouTube with a growing audience.

A SERIES OF ANNUAL EVENTS AND PROJECTS

INVESTMENT WEEK

Investment week is the most anticipated event of the calendar for the Department of Finance and the Finance Students' Association. The investment week being the flagship event of the Department has been held annually since the year 2013. The event is hosted to an audience of university undergraduates, scholars and corporate sector professionals. The primary objective of the event is to raise awareness amongst society on aspects relating to investments. This event serves as a tremendous opportunity for collaborations with professionals from the fields of Finance, Banking, Insurance and Financial Engineering, allowing the undergraduates of the Department to gain exposure into the industries they aspire to take on in the future.
The event spans over the course of a week and features a number of elements which includes an inter-university quiz competition, inter-department debate competition, workshops and a discussion forum.

"SHILPA" ADVANCED LEVEL SEMINAR SERIES

The "Shilpa" seminar series is conducted for Advanced Level students studying in the Commerce Stream under the local curriculum. The seminar series is conducted annually by an esteemed panel of lecturers from the Faculty of Commerce and Management Studies with the motive of preparing students for the upcoming G.C.E. Advanced Level Examination by discussing paper structures and subject matter relating to Business Studies, Accounting and Economics that students often find challenging. Both this year and in the previous year, the seminar series was conducted online due to unprecedented situations that have been prevailing in the country.

On the bright side, consequently, conducting the seminar series online, enabled the seminar series to be delivered to a participation of students from across the island.

TALENT SHOWS FOR THE UNDERGRADUATES OF THE DEPARTMENT

The Department of Finance provides multiple opportunities for its undergraduates to excel in their talents and capabilities. Thus, “Kusalatha Day” was held as an initiative taken to especially showcase the aesthetic skills of the first-year undergraduates of the Department.

Having organized the event for several years, last year, the event was replaced by an online talent show “Dfin Beats” due to being subjected to various constraints during the period of the Covid-19 pandemic.

COMMUNITY SERVICES

Over the years, a number of community service projects were carried out by the undergraduates under the Project Management and Skill development course modules targeting various segments of society to promote social welfare.

Amongst the projects were, blood donation campaigns, health awareness campaigns, seminars, environmental conservation campaigns, cleaning campaigns, drug prevention campaigns and charity donations.

RELIGIOUS EVENTS

The “Pindapatha Pinkama”, “Ashirwada poojawa for Freshers” and the “Vesak” celebration are the main religious events conducted by the Department in collaboration with the Finance Students’ Association. A “Bhakthi Geetha performance” and an “ice-cream dansala” were some added elements to this year’s Vesak celebration that took place in the month of May.

FELLOWSHIP EVENTS

The Association also organizes fellowship events including the Freshers’ Welcome held annually to greet the new entrants to the Department, and “Kinfolk” to bid farewell to the graduating batch of undergraduates. Other events such as Sinhala Tamil new year celebrations, sports days and Christmas carol performances were also initiatives taken to bring about togetherness and strengthen the unity and friendship between the undergraduates of the Department.

Amongst the fellowship events held annually, “Pinnacle” is an event especially looked forward to by the first and second year batches of undergraduates. “Pinnacle” is all about a day full of fun and games, that creates the perfect opportunity for bonding between fellow undergraduates and showcasing hidden talent.

FELLOWSHIP EVENTS

THREE ANNUAL MAGAZINES

“Waishakya Warnana” is the annual Vesak Magazine of the Department. Inaugurated in the year 2021, the second edition of the magazine was launched virtually in May 2022.

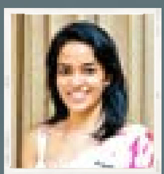
“The Finance Review Magazine” is the annual Departmental magazine launched in line with the “Shilpa” Advanced Level seminar series as a supplementary source of information for Commerce Stream Advanced Level students.

Last year being the inaugural year for the magazine, the “Finance Outlook Magazine” is annually launched as part of the Investment Week. The magazine comprises a collection of articles addressing contemporary topics from especially the Finance, Banking, Insurance and Financial Engineering industries authored by both industry experts and undergraduates under the direction of the lecturers of the Department.

Despite the many barriers and obstacles encountered as a result of the current economic crisis, the Finance Students' Association for the year 2021/22, was successfully able to host most of its key events, including the Freshers' Welcome, Ashirwada Poojawa, the Vesak Celebration and the "Shilpa" Advanced Level seminar series making this year passably eventful. Upon the successful completion of Investment Week in November 2022 and all the projected events for the term, the existing committee will sign off and handover the reins to its juniors during the first quarter next year.

Handed down with a legacy built upon the untiring efforts of its predecessors, the Finance Students' Association will continue to uphold its values and accomplish all its future endeavors above and beyond expectation.

Mechale Martis
Second Year Undergraduate
Department of Finance



Ms.Sandali Sudasinghe
Lecturer
Department of Finance

MANAGING IMPORTS & EXPORT BLUEPRINT OF SRI LANKA

The current economic crisis in Sri Lanka that arose due to the financial mismanagement by different governments is the worst that the country has faced in decades.

Instead of the usually excited tourists, this year, the island nation witnessed thousands of protesters flooding the road, mainly in Colombo. Also, the bomb attack in 2019 and the COVID-19 pandemic in 2020 hit Sri Lanka as the dollars and foreign currency that used to flow into the country through tourism and migrant workers abroad significantly dropped. Therefore, the foreign reserves dried up. However, Sri Lanka is unable to buy goods from abroad, and it failed to make an interest payment on its foreign debt for the first time. This has damaged the country's reputation making it harder to borrow the money it needs on international markets. In order to minimize these effects and to increase the country's foreign reserves, managing the imports and exports is vital. Sri Lanka imported $3 billion, which is more than its exports, and it was a significant reason for Sri Lanka to run out of foreign currency. At the end of 2019, it had $ 7.6 billion in foreign currency reserves, but it dropped to around $ 250 million. As a solution, the government has banned many imports ranging from vehicles, air conditioners, clothing items, cosmetics, and some spices like turmeric, etc., and has increased the import tax. These import controls have created shortages and inflated prices, giving profits to local producers, from farmers to others who have always hidden behind import protection to target customers. Increments in domestic production, avoiding re-exporting substandard products, and saving foreign exchange are some more justifications for the import controls.

Although the foreign exchange crisis forced the Sri Lankan government to impose an indefinite import ban to save hard currency, hundreds of businesses are fighting for survival and many small-scale businesses have already shut down. Import restrictions disrupt the input supply and may harm the export performance of industries that use foreign raw materials as well as induces the allocation of scarce resources like land and water which have high-valued alternative uses to relatively unproductive sectors. To overcome these disruptions Sri Lanka should produce and eventually specialize in products for which the country has a relative comparative advantage.

BOOSTING EXPORTS SHOULD BE DONE IMMEDIATELY

The government can intervene to acknowledge and direct the badly affected industries to focus on the local industries like processing of tea, rubber, coconut and textiles by inspiring them, providing financial, and technical assistance, infrastructure facilities, etc. and commence exports on businesses related to Sri Lankan indigenous products like King coconut. This will also positively impact the employment rate and the Gross Domestic Product.

On the other hand, the government should implement strategies to maintain the existing exports and enhance them. Even though exports have risen by 5.4% year on year to USD 1164 million in July 2022, which was boosted by sales of industrial products (12,4%), textiles and garments (21.4%), gems, diamonds and jewelry (75.4%), especially by the exports to India too witnessed an increase of exports assisted by the increased animal feed exports (19.26%) Areca nuts (95.96%) during January to June. Still, the imports of the country are higher than the exports. Therefore, boosting exports should be done immediately.

SOME STRATEGIES ARE,

Creation of duty drawback schemes by making them accessible to indirect exporters and extending them to imported inputs used in producing exported final products.

Increasing the availability of credit which is crucial to exporters. This is decisive for small and medium-scale businesses for which credit constraints are more binding than for large firms.

The government should simplify regulations related to exports because lengthy bureaucratic procedures may badly affect new exporters especially.

FINANCE
OUTLOOK

Improving cooperation among economic actors by improving cooperation among exporters and between the government and business actors.

Combining short-term and long-term export growth policies as the stimulation of export growth requires the combination of short- and long-term policies.

The imports and exports of a country are very important as they influence a country's GDP, exchange rate, inflation and interest rates. Therefore, managing them effectively is very crucial as it ensures the success of the country as well as the government. Policies to strengthen the Balance of Trade will provide a huge support in the process of exiting the economic crisis that is currently being faced.

W.A.A.D.N.Medini
First Year Undergraduate
Department of Finance

Mr.A.L.Gunasekara
Lecturer
Department of Finance

IMPROVING THE TOURISM INDUSTRY

WITH A PRODUCTIVE APPROACH

FINANCE OUTLOOK

The tourism industry in Sri Lanka accounts for a considerable percentage of the nation's GDP. It can be considered the fifth largest source which brings foreign currency into the country. In 2018 tourism sector accounted for 5.6 percent of GDP by bringing in USD 4.4 billion but this was contracted to 0.8 percent in 2020 due to the Easter Sunday attacks and covid 19 pandemic. Later, the economic crisis, a critical shortage of FOREX, political instability, high gasoline prices, and power outages, heighten the problem further.

However, it is impotent to keep focusing on past events yet important to fix attention to how to minimize or eliminate the crisis. Looking into how some countries faced similar situations and the methods which were used to overcome such situations would assist Sri Lanka to build up the right strategies and rebuild a better tourism-reliant country.

> Protecting a region's key assets
> **- the very reason for tourist arrivals -**

The Maldivian tourism industry was greatly affected by the global economic crisis in 2008 – 2009. Since July 2008, international tourist arrivals to the Maldives have been steadily declining, despite the country's ability to maintain an average length of stay of 8 to 9 days per tourist. The Maldives felt the full impact of the crisis in 2009 when tourist arrivals fell by 4 percent. To overcome this situation and to support tourism, they used strategies such as modifying some tourism development contracts, moderating some trade financing, requesting foreign concessionary aid, etc. Costa Rica was another country severely impacted by the global economic crisis in 2008-2009. Following a long period of steady economic growth, tourism receipts fell, and unemployment rates rose significantly between 2008 and 2009. he tourism industry was one of the hardest hits. Aside from the global economic crisis, Costa Rica suffered significant negative consequences from the H1N1 outbreak in the summer of 2009, which scared many US tourists and caused them to cancel or postpone their travel plans. Some of the measures undertaken by the government and businesses to mitigate the effects were offering advantageous loan programs to small and medium-sized tourism businesses by Costa Rican Public Banks, boosting the state's international marketing efforts, allocating a variety of long-term infrastructural measures, and raising domestic tourism by a striking publicity campaign, etc.

The Sri Lankan government and responsible authorities have taken a few steps to reform tourism. They have provided investors with a clear path by removing previous impediments, streamlining the entire process for greater efficiency, and ensuring complete transparency. This gives interested parties the assurance they require when evaluating the long-term viability of their investment.

FINANCE OUTLOOK

To expedite the approval of all tourism investments, the Sri Lanka Tourism Development Authority has also established an Investment Relations Unit (IRU). This increases regulatory clarity and allows investors to form a direct partnership with the administrative body. The SLTDA recognizes sustainability as a key driver in preserving and conserving the island's outstanding natural and cultural heritage to safeguard the destination for our people and visitors now and in the future.

Some suggestions to develop tourism during this crisis are that Sri Lanka should develop and implement sound regional and national tourism plans, which will be integrated into crisis management strategies. Finding financial resources to help tourism businesses and develop marketing strategies appears to be important. Analyzing past events, economic conditions can change very quickly, and it is always good to be ready for turbulent conditions rather than only planning for stable conditions. It would be prudent to establish a national tourism crisis fund. Every year, a certain percentage of tourism revenues can be allocated to this fund. When a crisis strikes, it can be called upon to assist businesses in the tourism industry by providing loans and funding intensive marketing activities.

On the other hand, the concept of “sustainable tourism” should be emphasized in all actions. As the digital world plays a major role in almost all industries globally, a strong emphasis can be placed on digital marketing campaigns and online sales platforms to attract local and international tourists. The availability of research on the potentialities of new markets is a prerequisite for successful tourism product diversification and market generation. As a result, additional research in this area is strongly encouraged. At the same time with the motive of overcoming infrastructural growth barriers, the tourism infrastructure should be carefully reviewed. Tax systems should be reviewed and adjusted to reduce the amount of potentially unfair financial burdens on the sector. Revenue-based taxes are preferred instead. This will help to mitigate the effects of the future crisis on labor markets.

The combination of these strategies can ensure those policy decisions are based on careful and scientific formulations. Protecting a region's key assets - the very reason for tourist arrivals - is a critical component of any recovery, ensuring that it doesn’t solve one problem by creating another. Tourism as a sector, when planned and implemented strategically, has the potential to be a driver of social, economic, and environmental welfare.

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INFLATION

AND IMPACT

ON THE GENERAL PUBLIC

IN SRI LANKA

Inflation in Sri Lanka has increased to 69.8% in September 2022 from 5.70% in September 2021. The price of food items in Sri Lanka increased by 94.90% in September 2022. According to the World Bank, Sri Lanka is in the 3rd according to the real food inflation figures between September 2021 and August 2022, and at the 4th place in consideration of nominal food inflation. And also, according to Hanke's Inflation Dashboard (22/08/18), Sri Lanka is in 4th place with a 104% inflation rate, among the countries with the highest inflation in the world.

WHAT IS INFLATION AND HOW TO MEASURE INFLATION IN SRI LANKA

Inflation is the continuous increase of the general price level. Four price indices have been used to measure inflation in Sri Lanka, among which the two main price indices are the National Consumer Price Index and the Colombo Consumer Price Index. Both price indices are prepared by the Department of Population and Statistics. For the National Consumer Price Index, a basket of goods has been selected that represents household consumption in all provinces of the country.

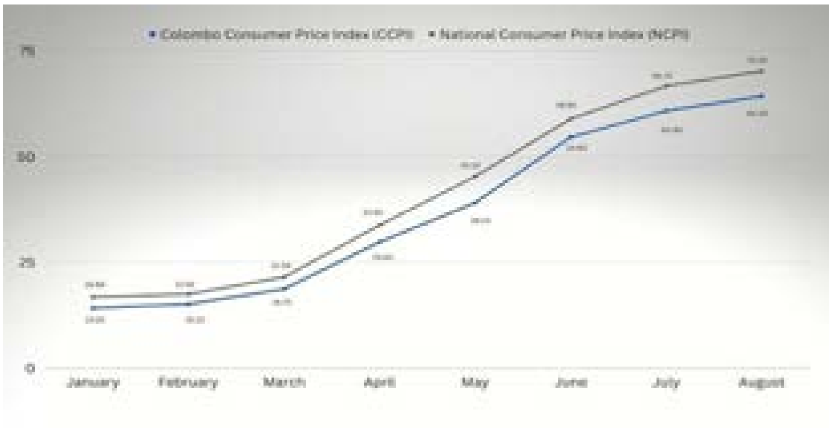
Hanke's Inflation Dashboard (8/18/2022)

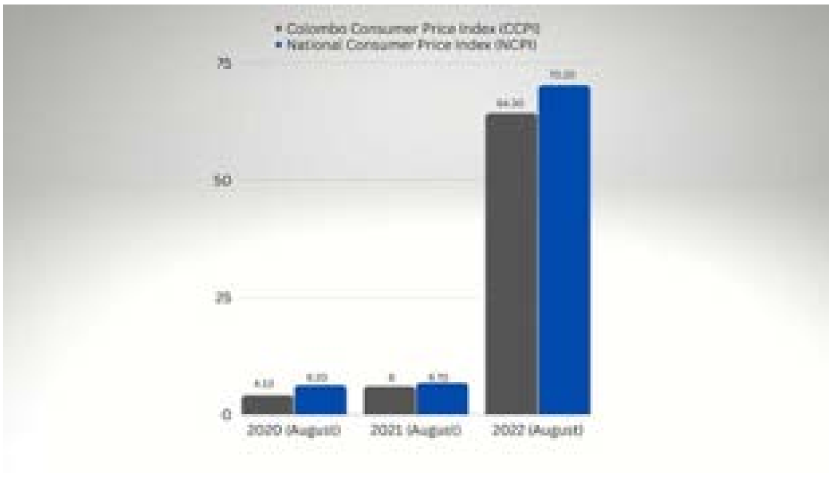
Rank	Country	Hanke's Annual Measured Inflation Rate	Date for Last Official Inflation Rate	Last Reported Official Inflation Rate
1	Zimbabwe	479%	July 2022	256.90%
2	Cuba	135%	N/A	N/A
3	Turkey	132%	July 2022	79.60%
4	Sri Lanka	104%	July 2022	60.80%
5	Lebanon	89%	June 2022	210.06%
6	Ghana	77%	July 2022	32%
7	Argentina	75%	July 2022	71%
8	Laos	72%	July 2022	25.60%
9	Venezuela	67%	May 2022	131.00%
10	Ukraine	66%	July 2022	22%
11	Nigeria	49%	July 2022	20%
12	Sierra Leone	47%	May 2022	25%
13	Malawi	44%	April 2022	19%
14	Syria	43%	December 2018	35%
15	Pakistan	42%	July 2022	25%
16	Sudan	38%	February 2022	31%
17	Egypt	33%	July 2022	14%
18	Colombia	27%	July 2022	10%

A basket containing 407 items was selected from among the items consumed by households living in all regions of the country. Rice, vegetables, tobacco, clothing, bus fare, tuition fare, housing rent, etc; are some examples. The average monthly consumption expenditure of a family is Rs.32143. 3 centers will be set up in each district and prices will be collected. In the commodity basket, 44% is food and 56% is non-food. 70.20% in August 2022 (Headline Inflation).

For the Colombo consumer price index, a basket of goods is used based on consumption in Colombo's urban areas. A basket of 392 types of goods consumed by households living in urban areas of the Colombo District. Rice, coconut oil, eggs, chicken, gas, potatoes, onion, diesel, petrol, etc; are some examples. The monthly expenditure of a family is Rs 60375. Prices are collected from 14 centers in the Colombo district. 28% of the commodity basket is food and 72% is non-food.

64.3% in August 2022 (Headline Inflation). A report on food security by the World Bank has discovered that Sri Lanka is in third place according to the real food inflation numbers between September 2021 and August 2022, and fourth place in concern of nominal food inflation. The inflation rate in Sri Lanka averaged 9.73% from 1986 until 2022, reaching an all-time high of 69.80% in September of 2022 and a record low of -0.90% in March of 1995. For the Colombo consumer price index, a basket of goods is used based on consumption in Colombo's urban areas. A basket of 392 types of goods consumed by households living in urban areas of the Colombo District.





Rice, coconut oil, eggs, chicken, gas, potatoes, onion, diesel, petrol, etc; are some examples. The monthly expenditure of a family is Rs 60375. Prices are collected from 14 centers in the Colombo district. 28% of the commodity basket is food and 72% is non-food. 64.3% in August 2022 (Headline Inflation). A report on food security by the World Bank has discovered that Sri Lanka is in third place according to the real food inflation numbers between September 2021 and August 2022, and fourth place in concern of nominal food inflation. The inflation rate in Sri Lanka averaged 9.73% from 1986 until 2022, reaching an all-time high of 69.80% in September of 2022 and a record low of -0.90 percent in March of 1995.

REASONS FOR THE RISE IN INFLATION

Sri Lanka's continuation of extreme cash printing since 2020 up to currently has been exerting pressure on the rate and inflation to a great extent and it's time for the central bank (CB) to use the brakes on this process, economic specialists warned. The CB has written Rs.1.62 trillion throughout the period of Jan 2020 to March 2022 and this was twenty-three times over the money written throughout the sixty-two-year period of 1952 to 2020, CB data showed. It has resorted to recording cash printing of Rs. 188.61 billion within eighteen days throughout the amount from February 28, 2022, to March 18, 2022. Because of this, consumers received an excessive amount of money. Then the demand for goods and services increased.

This caused a serious downfall in but supply was decreased, because of issues such as an import ban on fertilizer, power cuts, and an import ban on ingredients due to Dollar the crisis which occurred because of the COVID-19 pandemic. production, so the supply decreased, and the demand increased, and because of that price levels of essentials increased. Because of the limitations in fuel import and the depreciation of the LKR, prices of fuel have increased, prices of imported goods and ingredients skyrocketed, and taxes, water bills, and electricity bills have increased. So, the production costs have risen. So the producers have increased the prices of goods and services to cover up their production costs.

IMPACTS OF THE INFLATION IN SRI LANKA

Sri Lanka's GDP per capita for 2021 was $3,815, a 3.27 percent increase from 2020. Food prices climbed 84.6 percent, while prices of non-food items rise 57.1 percent in Sri Lanka now. Worst food inflation in Asia in Sri Lanka. So, the people who are having fixed incomes such as government employees and pensioners have decreased their purchasing power. Due to the unavailability of raw materials and increasing price, many factories have been closed and the workers who worked in them have lost their jobs and unemployment has also increased. With these situations, malnutrition in Sri Lanka has grown again

Because of the lack of nutritional foods. Under these conditions, it is difficult for the middle-class families of the country to buy even the essential things they need with their salary because of that the purchasing power decreased. The living standards of people have decreased, and poverty levels have increased. And because of this instability, foreign investors withdraw their investments again. Sri Lanka has the value of the trade currency rapidly depreciated and the danger of hyperinflation if this is not allowed to rise further and cannot be controlled, it can have a huge impact on the entire economy.

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HOW TO OVERCOME THE CURRENT ECONOMIC CRISIS OF SRI LANKA VIA THE EXPORT-ORIENTED CULTURE

SRI LANKA is an island in the Indian Ocean's northern eastern part. The Bay of Bengal is located west of Sri Lanka, while India is located east of Sri Lanka. Sri Lanka has a variety of temperature levels and climatic changes. Furthermore, the coastal area that extends throughout the country and the natural forests contribute to the country's biodiversity. The most remarkable aspect is that tourists who visit Sri Lanka will have the opportunity to see all these things in an abbreviated period. Colombo is considered the largest city along the coast. It is also Sri Lanka's commercial capital.

The country is classified as upper-middle-income. It is known as a "developing/emerging" economy. Sri Lanka's exports continue to be raw materials such as tea and spices, as well as finished goods such as textiles and apparel. This contrasts sharply with their imports of machinery and petroleum products. Agriculture is the most important sector of Sri Lanka's economy. The garment industry generates the most foreign exchange for the country. The foreign income earned by Sri Lankans in the Middle East and the Gulf region helps the country's economy. Growth rates have slowed in recent years because of racial and political tensions.

WHAT SRI LANKA FELL IN WITH?

The brief is given below for the current economic and financial status of Sri Lanka.

The awakening of globalization made the open economy play a significant role in every single country around the world. In 1977, the November exchange rate of Sri Lanka was about Rs. 5.95 = the US $ 1 to Rs. 16 = US 1, but today, due to the unethical management of the country, it is brought up to RS 366.

According to the CBSL record, the lowest import record was at 1,236 million US dollars in 2011, although with a high dollar crisis since the country imported 1,287 million US dollars, which is higher than in 2011. To overcome the addiction to importing, the solution will be to export. Exports lead to investment and import expansion, which contribute to the development of a country

Figure 1:

Export by Destination and import by origin

Source: CBSL Annual report, 2021)

Category	July 2021 US$ mn	July 2022 US$ mn	Change (%)	Jan-Jul 2021 US$ mn	Jan-Jul 2022 US$ mn	Change (%)
Merchandise exports	1,104	1,164	5.4	6,803	7,678	12.9
Merchandise imports	1,710	1,287	-24.8	11,725	11,315	-3.5
Trade balance	-606	-123		-4,922	-3,637	
Earnings from tourism	6 (b)	85(c)	-	50 (b)	825 (c)	-
Workers' remittances	453	279	-38.3	3,778	1,889	-50.0
Inflows to the CSE (net) (d)	-41	2		-165	95	
Inflows to the Government (gross)	83	4		1,298	1,453 (e)	
Treasury bills and bonds	1	4		16	16	
Long term loans	82	n.a.		782	1,437 (e)	
Syndicated loans	-	-		500	-	
Overall balance				-2,755	-2,986	

Figure 2:

Summary of external sector performance

Source: website Economy next,2022

WHAT TO BE DONE TO PREVAIL OVER THE CRISIS?

To maintain macroeconomic stability and public trust in the local currency, a steady monetary policy is essential. Fiscal consolidation can be forced upon the Treasury by an independent central bank that has the power to forbid money creation. The region's highest tariff rates are found in Sri Lanka, which protects local industries by emphasizing import substitution. Sri Lanka must follow the global industrial trend and join global supply chains. Finding specialized value adds in the supply chains of global corporations is a successful strategy that can be used to boost exports. Land use by the private sector is severely constrained in Sri Lanka because the government owns 82% of the nation's land. Another significant problem is land fragmentation, which makes it difficult to find big parcels of land for important development projects.to draw in investments, a suitable system of land assessment is also essential. It must be grown in exports that drive our growth process to the point where we can achieve 6% plus growth to meet the aspirations of our people.

BENEFITS OF EXPORTING

Exports have a significant impact on the economy, affecting the rate of economic expansion, employment, and the balance of payments. Nothing can prevent an economy from being developed if export growth outpaces import growth. Conversely, the process of economic development may be negatively affected by the volatility of exports. Gaining economies of scale and spreading costs over a higher amount of revenue is possible with expanded export production and sales. Your total profitability and competitiveness rise as you lower average unit costs. To reach an economically viable level of output, a corporation may be able to expand its manufacturing facilities thanks to long-term exports.

Economists and other experts have repeatedly criticized export-oriented industrialization (EOI) as a strategy. One disadvantage of EOI is that it may not benefit the economy if its export prices do not exceed its import costs. Another disadvantage is a country's overreliance on its export specialization, which would undermine the benefits if prices for those specializations fell. Another reason EOI failed during the 1997 Asian financial crisis was a lack of product diversity. These countries took advantage of comparative advantage to reap the most benefits from EOI. As an exception, consider the "Four Asian Tiger" economies of Hong Kong, Singapore, South Korea, and Taiwan. Following World War II, the four countries benefited from a unique historical circumstance.

RISKS OF EXPORT-ORIENTED INDUSTRIALIZATION

WHEN CONSIDERING THE SRI LANKAN ECONOMY, THERE ARE 02 SIGNIFICANT RISKS IN EOI.

HOW CAN WE MANAGE THIS SITUATION?

In sum, export is a key process for developing countries' economic development. Many economists agree, however, that the process of economic development is very complex because it is dependent on a large number of variables such as the political system, socioeconomic structure, capital accumulation (both physical and human), trade, price fluctuations, and income distribution, as well as geographical characteristics. As such, while export-oriented industrialization contributes to economic growth, it is not necessarily indispensable to the growth and development of developing countries. To function effectively, it must be supported by proper policy components such as the infant industry protection strategy, competition policy, export promotion strategy, and others. It necessitates well-functioning and well-integrated macroeconomic policies such as trade policy, industrial policy, exchange rate policy, investment policy, tariff policy, and others. Government intervention is also important in ensuring that export-oriented industrialization is effective for economic development.

FINANCIAL RISK IN CURRENCY EXCHANGE RATES

The pricing of manufactured products is mostly predictable; they are an adverse risk in the exchange rate that can lead to a loss of profits or earnings. Generally, exporting from a country that has more stable businesses is likely to have a more stable or predictable financial system. But when considering the Sri Lankan economy and political background, it's different. But for a beneficial EOI, manufacturers should take into account the evaluation of the currency exchange rate, which can be unpredictable based on economic and political changes.

NOT HAVING A DIVERSE WORKFORCE

The product may have arrived at the point of destination, but the game is not over yet. Problems such as charges for faulty equipment may arise once the goods begin to circulate in the region. Furthermore, intellectual property (IP) laws may be shaky or lacking. For example, while IP rights may be officially acknowledged in China, there are fragile legal frameworks and copyright violations to consider.

WHAT ARE THE EFFECTIVE STRATEGIES THAT CAN BE CONSIDERED FOR THE IMPROVEMENT OF SRI LANKAN EXPORTS?

SIMPLIFYING REGULATION.

The government should simplify export regulations, lengthy bureaucratic procedures harm new exporters. Governments should also improve information collection and dissemination about foreign markets and export requirements. Actions in this category should also consider product standards and other technical requirements imposed for exporting to developed-country markets.

INCREASING THE AVAILABILITY OF CREDIT.

Exporters rely heavily on the availability of short-term and (especially) long-term credit. This is critical for small and medium-sized enterprises (SMEs), which face more stringent credit constraints than large corporations. Because SMEs constitute most firms in developing countries, advancements in this area are needed to promote export growth.

IMPROVING COOPERATION AMONG ECONOMIC ACTORS.

Export growth could be aided by improving cooperation among exporters as well as between the government and business actors. In addition to traditional policy instruments better to arrange awareness sessions about the possibility of using export associations to assist SMEs in entering international markets. This could be viewed as an addition to other forms of government intervention

COMBINING SHORT-TERM AND LONG-TERM EXPORT GROWTH POLICIES.

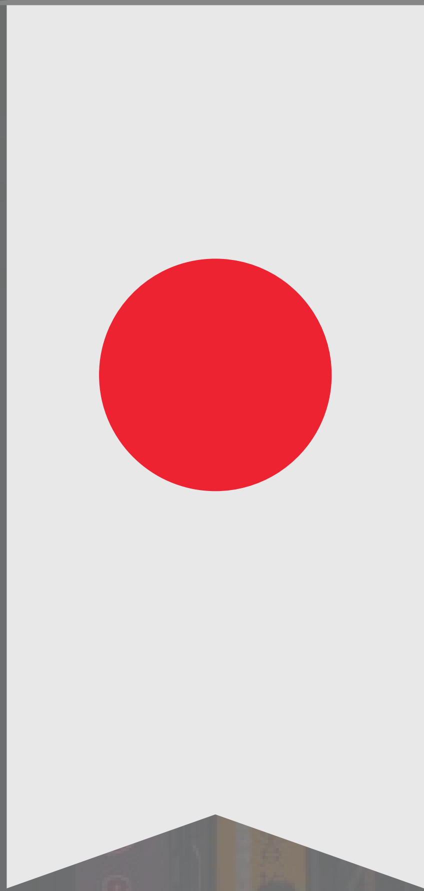
Improving export growth causes a combination of short- and long-term policies. The policy mix proposed for a given country must be tailored to the capabilities available to the national government, sub-national governments, and domestic agencies. Domestic policies can have an impact on export performance either directly, through a set of policy instruments with a direct impact on foreign trade, or indirectly, through other aspects of the economic system.

ALLOW SRI LANKA TO BECOME A REGIONAL TRADE HUB.

As a result, the nation will draw in foreign capital and experience rapid economic growth. This improves exporters' ability to enter new markets and follow regulations, enables them to develop into effective trade and logistics hubs that make it easier to export goods, encourages export diversification through innovation, and fortifies developing industries.

SUCCESS STORY OF JAPAN

FINANCE
OUTLOOK



Japan was one of the first Asian countries to climb the value chain from low-cost textiles to advanced manufacturing and services, which now account for the majority of Japan's GDP and employment. Its GDP was estimated to be USD 4.7 trillion in 2016, and its 126.9 million population enjoys a high standard of living, with a per capita GDP of just under USD 40,000 in 2015. It has a highly educated and hardworking workforce, and its large and affluent population makes it one of the world's largest consumer markets.

In 2015-16, Japan's top export destinations were the United States (20.2%), China (17.5%), and the Republic of Korea (7%). Japan's services sector, which includes financial services, now accounts for around 75% of the GDP. Japan is now a world leader in the production of electrical appliances and electronics, automobiles, ships, machine tools, optical and precision equipment, machinery, and chemicals. Exports account for approximately 16% of the Japanese GDP. However, in recent years, Japan has ceded some economic advantage in manufacturing to China, the Republic of Korea, and other manufacturing economies.

Japan's economy boomed after WWII, rivaling the US in economic recovery in just 80 years until the end of the Cold War era. Japan rose from the devastation and recovery following Hiroshima and Nagasaki to become one of the world's top-performing economies. This happened because of Japan's export-oriented economy.

SUCCESS STORY OF BANGLADESH

Bangladesh's growth over the past two decades or more, in terms of developing-country standards, has been notable. The record of progress is one guide to the country's potential to grow and score well in world markets. The Bangladeshi economy is driven by garment exports, which account for over 80% of its total exports. Remittances from overseas represent over 6% of GDP. Bangladesh's exports to India increased by 65% to $700 million in the first four months of the fiscal year 2021-22. If the current rate of growth continues, the country will earn more than $2 billion in exports from South Asia's largest economy for the first time this year. If Bangladesh continues to increase its exports to countries worldwide with its high-quality commodities, it will be a surge in trade.

This demonstrates that, in recent years, Bangladesh's economy has grown faster than that of other developing countries due to its export-oriented economy. It is the fastest-growing economy in South Asia. These records suggest that export-oriented industries may help a nation develop even during an economic crisis and that the government should give the facilities they need to do so. However, export-oriented industries have both benefits and drawbacks.

Bangladesh Economic Growth - Historical Data

Year	GDP	Per Capita	Growth Rate
2021	$416.26B	$2,503	6.94%
2020	$373.90B	$2,270	3.45%
2019	$351.24B	$2,154	7.88%
2018	$321.38B	$1,991	7.32%
2017	$293.75B	$1,840	6.59%
2016	$265.24B	$1,679	7.11%

Figure 3:
Bangladesh's economic growth
Source: website Macro trends, 2021

Examined empirical evidence also shows that export-oriented industrialization was a distinctive feature of the post-World War II economic development of the Asian Tigers: Hong Kong, South Korea, Taiwan, and Singapore. Aside from Asian Tigers, evidence shows how the export-oriented industrialization (EOI) strategy aided the economic development of the United States, Germany, and other countries that are now classified as developed. However, while the role of export-oriented industrialization in economic development is undeniable, countries must also carefully consider their share of gross domestic product, as greater export dependence harms economic growth.

The economic crisis ravaging Sri Lanka has created a dire situation where a significant number of middle-class families have been pushed into poverty within a short period. The dire economic situation of Sri Lanka is alarming and tragic, but simultaneously it supplies a much-needed opportunity and drives to make a key structural change to the economy. Therefore, by moving towards to export-oriented industrialization (EOI) strategy as a country we can go for greater capacity utilization, can allocate resources according to comparative advantage. Exploration of the economics of scale and all these lead to increased employment in labor-surplus developing countries. By following the EOI strategy Sri Lanka can increase its GDP which reduces the dollar pressure. which occurs as our ultimate objective as a nation. The insights gained during the crisis can bring opportunities and drive the future economic outlook, not just to survive now, but to thrive in the years ahead.

> “EFFORT AND EXPORT BOTH GIVE THE RESULTS IF THE DIRECTION IS RIGHT

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INNOVATIONS IN THE LOCAL APPAREL SECTOR

THAT COULD HELP DRIVE THE COUNTRY FORWARD

The Sri Lankan textile industry dates back to the 1960s, when it was mainly concerned with supplying textiles and garments on a domestic level. Although Sri Lanka's clothing industry did not really take off until the economy was liberalized in 1977, it did so as a rival to the garment factories in India. The open economic policies as well as the conducive climate for trade and investment served as catalysts for this paradigm shift. Sri Lanka's largest businesses are the design, production, and export of textile and clothing goods since it is a vital component of the development of the national economy. Around 15% of the labour force and 50% of all exports are employed in the garment sector, respectively. As a result, in terms of population, Sri Lanka is now one of the top nations in the world for produce clothing.

Sri Lanka connects premium brands like Victoria's Secret, Gap, Liz Claiborne, Nike, and Tommy Hilfiger among others, redefines industry boundaries. Apart from this the country has the ability to adapt production and export of different items to the seasonal needs of several nations worldwide. The USA and the UK have historically been the two biggest consumers of Sri Lankan clothing over the years. Over the past 20 years, the garment sector has created a sizable quantity of jobs and is currently a big contributor to the nation's economy. Over the past 30 years, it has generated the single-largest amount of export earnings, making up more than half of all exports the nation makes.

Although the apparel sector was once flourishing, it has met with a sad plight due to the political and economic turmoil in the country as well as due to the many narrow-minded decisions taken by the authorities. The only way this could be turned around is through the implementation of novel industry techniques such as, re-use of fabric waste and address pre consumer waste, research and development of new fabric knitting techniques, and etc. Sustainable fashion, which refers to a carbon-neutral fashion sector founded on equity, social justice, animal welfare, and ecological integrity may be realized via the use of goods, processes, activities, and actors (policymakers, companies, and consumers) that are all effectively referred to as sustainable fashion. This would help us to capture a rapidly growing market in terms of apparel.

"THE USA AND THE UK HAVE HISTORICALLY BEEN THE TWO BIGGEST CONSUMERS OF SRI LANKAN CLOTHING OVER THE YEARS."

Another crucial step that could be taken would be to reuse fabric waste which is one of the most overlooked factors in the apparel sector of the country. Steps should be taken to recycle fabric waste (commonly referred to as cut pieces) which could be used for the production of table mats, door mats, carpets and could also be reused to produce new fabrics. Apparel manufacturers should track, map, and quantify surplus textiles. These scraps may be reintroduced into the supply chain, reducing the need for fresh resources, while becoming more traceable through their subsequent life cycles.

One of the main setbacks that the local garment sector faces in the current context is having to import fabrics which has been highly detrimental to the industry due to the economic crisis. Thereby, to tackle this issue, steps should be taken on research and development of new fabric knitting techniques that is suitable for the country such as leather from fruit waste, 3D printed sustainable garments, biodegradable polymers, fabrics from sea weeds. Out of the above alternatives fabrics from sea weeds might be highly promising because we are a small island nation.

And sea weeds can be harvested without putting much effort. Making it a cost effective, environmentally friendly, and suitable measure for the country and its development. It is also important to note that garments and fabrics made from seaweed have a separate, highly lucrative market as fabrics which are produced from seaweed are said to have certain medicinal properties.

All those methods may sound easy to implement. But it might not be the case in the Sri Lankan context. This is due to the technological barriers as well as due to the social and cultural rigidities. But it is important to note that if implemented correctly, it could be highly beneficial for the modern apparel sector to get over its current state which would in turn help the country to get through the current economic situation.

Steps should be taken by the government to improve research and development in the said fields and in order to improve public knowledge on these novel technologies and concepts public awareness campaigns should be held. And also, most importantly steps should be taken to attract foreign investors so that the country could improve its technological infrastructure there by increasing efficiency and productivity. Apart from that empowering our labour force through training, supporting growth through the provision of equitable opportunities, and providing job security thereby increasing our output should also be given proper consideration.

Innovation helps businesses grow their recognition and income, and the economy benefits immensely from more income and better exporting goods. Employees would have more disposable income because of the brand's success and would not have any concerns with their pay. As a result, the economy would generate more money through increased consumer spending and purchasing power. The export of innovative products would also give both the nation and the brands more global exposure.

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REMITTANCES VITAL FOR FOREIGN EXCHANGE IN SRI LANKA

CURRENT FOREIGN EXCHANGE SITUATION IN SRI LANKA

Sri Lanka is facing an economic crisis due to the low levels of foreign exchange reserves held by the Central Bank of Sri Lanka (CBSL), where the country's official reserves decreased from USD 7.6 billion in 2019 to less than USD 400 million in June 2022 (World Bank 2022). This was driven by the continued servicing of foreign debt and payment of imports using the banking sector's official reserves, after losing access to international financial markets in 2020 due to credit rating downgrades. The severe foreign exchange crisis negatively influenced the nation's economic activities, resulting in fuel and pharmaceutical shortages. In addition, there is a huge monthly trade deficit with the rest of the world and significant foreign debt repayments are due this year and for years to come. Resultantly, the policy discussions between government and CBSL officials led to suggested solutions such as approaching the IMF and restructuring the debt, taking additional loans from China and other Asian nations, or even declaring bankruptcy.

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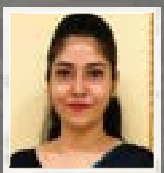

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However, along with these solutions, it is also important to find more sustainable and positive solutions. This article discusses foreign remittances and their vital support in answering the economic crisis in Sri Lanka by enhancing the external resilience of the country against the widening trade deficit.

WHAT ARE FOREIGN REMITTANCES?

Remittances are payments sent by migrants back to their home country. They are the individual savings of the employees and their families, which are used to pay for food, clothing, and other needs in the home country and to support the local economy. Many developing nations rely heavily on remittances from their citizens working abroad as a source of much-needed income.

Formal and informal remittances are the two primary categories of remittances. Formal remittances are controlled transfers that reach a destination nation through official banking channels. On the other hand, informal remittances bypass these official and recorded channels and are unregulated. Informal channels consist of participants in unregulated marketplaces such as Hawala, Hundi or Undiyal, Fei Qian or Chit, and Black-market Peso; in Sri Lanka, Hawala is the most frequently used informal channel.

Remittances also encompass a cost, including two main components

Transfer fees, a payment paid by the sender at the time of initiation, can include fees and taxes levied upon the recipient in some situations.

“Exchange rate margin, the percentage difference between the foreign currency exchange rate applied to the transaction by the remittance service provider and the interbank exchange rate when payments are made in local currencies.”

CHANGE OF REMITTANCES OVER THE YEARS IN SRI LANKA AND OTHER SOUTH AND SOUTH EAST ASIAN REGIONS?

From 1981 to 2000, workers' remittances as a percentage of Sri Lanka's gross domestic product (GDP) averaged approximately 5.7%, and from 2001 to 2020, this increased to approximately 8%, reflecting the growing importance of workers' remittances to Sri Lanka's GDP (Figure 1). However, Sri Lanka experienced a sharp fall in worker remittances in 2021, from USD 7.1 billion in 2020 to USD 5.5 billion (Central bank, 2021). Several factors, including fewer worker departures from Sri Lanka during COVID-19 and the considerable currency rate discrepancies between formal channels and informal Hawala channels, led to this significant reduction.

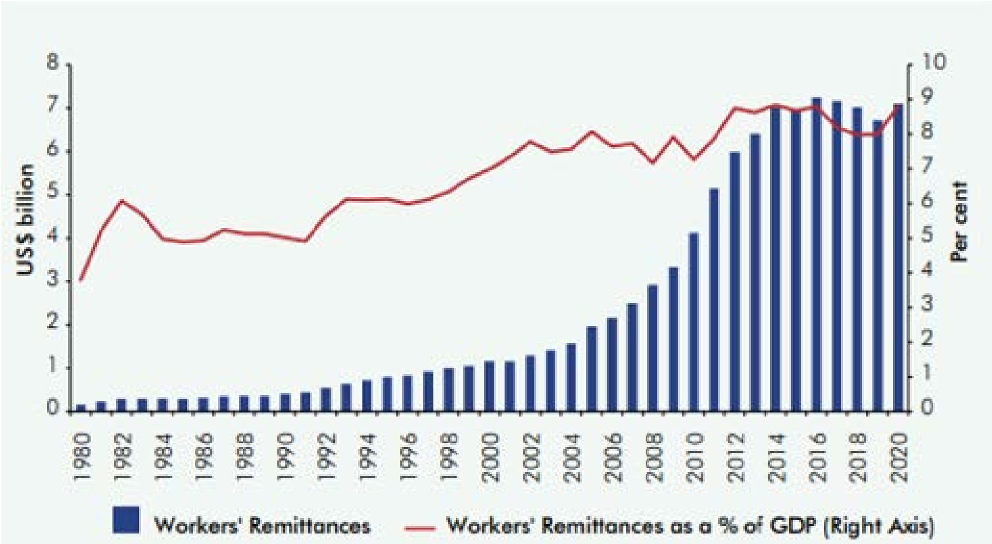

Figure 1:
Workers' Remittances
Source: Central Bank of Sri Lanka

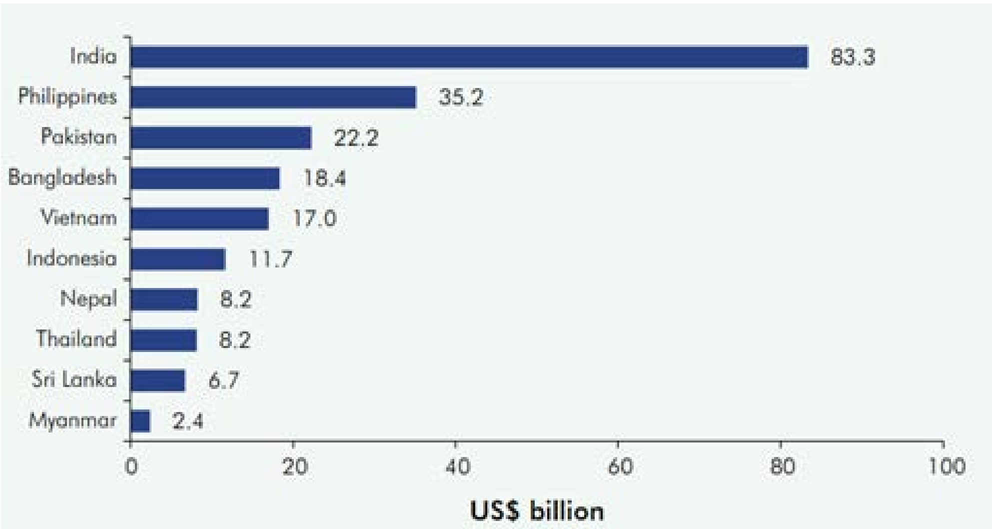

Figure 2:
Top remittances recipients in South and South East Asia – 2019
Source: Central Bank of Sri Lanka

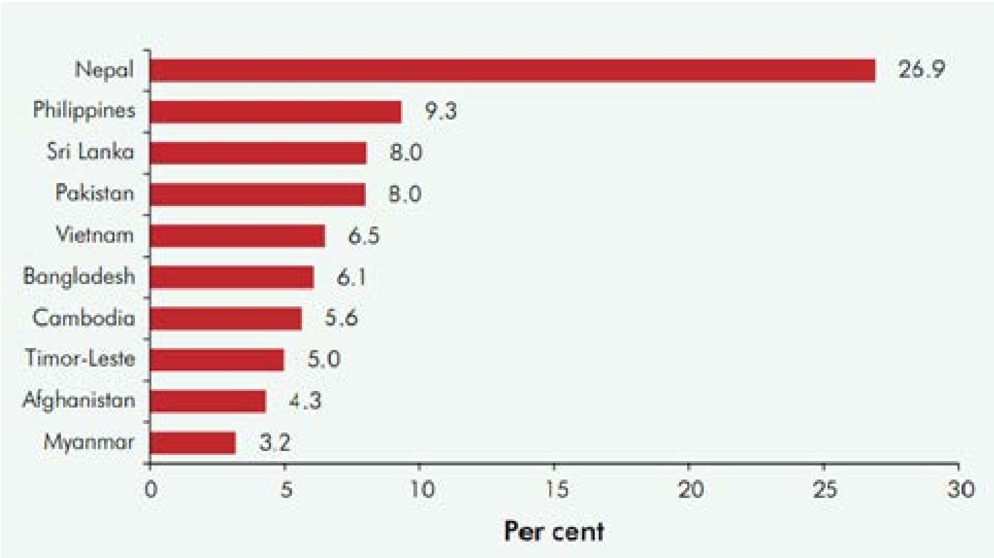

Figure 3:
Top remittances recipients in South and South East Asia – 2019 (By Share of GDP)
Source: Central Bank of Sri Lanka

IMPORTANCE OF FOREIGN REMITTANCES TO SRI LANKA

Improve Balance of Payment and Foreign Reserves:

Improve Balance of Payment and Foreign Reserves: foreign exchange Workers' remittances, the second largest source of foreign currency earnings, have covered around 80% of the average annual trade deficit during the past decade, despite a fall to USD 5.5 billion in 2021. Workers' remittances are a non-debt source of foreign cash inflows to the economy, and unlike many item export categories, this source of foreign exchange income does not contain imports, hence there is no foreign currency outflow.

Alleviation of Poverty

For many struggling households in developing countries like Sri Lanka, remittances can be used to purchase necessities such as food, sanitation, clothing, and cooking energy. These economic activities have a direct impact on reducing poverty among low-income families living below or close to the poverty line. In addition, one in every fourteen families in Sri Lanka receives international remittances, which play a vital role in their emancipation from poverty.

Foster the growth of a country

Through investments and access to funding, remittances can contribute to a country's economic growth (World Bank 2022). According to the UNESCAP (2007), workers' remittances can stimulate economic growth through improvements in human capital and private investments. Remittances can relax lending constraints and boost private investment. On the other hand, when remittances are used to pay for healthcare and education, human capital will be increased.

In addition, increasing remittance inflows to the country offers several macroeconomic and socioeconomic benefits, including the reduction of income gaps, geographical disparities, and the fiscal burden connected with social security payments.

Therefore, the Central Bank of Sri Lanka (CBSL) established the Foreign Remittance Facilitation Department (FRFD) to simplify and streamline employees' remittances to the country. By cooperating with other organizations involved in worker migration and remittances, FRFD plays a significant role in increasing worker remittances into the country and enhancing the welfare of migrant workers.

WHAT CAN WE DO TO INCREASE REMITTANCES

The International Labour Organization (2020) has provided the following recommendations which will immensely help in improving the remittances to Sri Lanka.

Enhance communication between banks and money transfer services (MTOs)

Banks and MTOs, the two key institutions involved in remittance service delivery in Sri Lanka, should interact more efficiently to reduce the cost of remittances. Specifically, Sri Lanka's regulatory structures should be modified to ensure that MTOs' technique for charging banks remittance fees is transparent. In addition, regulators should investigate the pricing structures of Sri Lanka-servicing banks and MTOs to minimize the likelihood of specific service providers charging duplicate transaction costs for a single transfer.

Learn from informal channels

To improve the services and attract more customers, banks, MTOs, and regulators may learn from informal channels. First, it is important to understand that severe restrictions encourage money senders to employ illegitimate means. For example, the lack of Know Your Customer (KYC) rules and less laborious procedures for the remitter encourage more clients to use informal channels. Furthermore, migrants should be encouraged to follow legal channels. Customers who frequently receive remittances in banks, for instance, are eligible for greater yield rates on savings accounts and lower interest rates on loans, which may encourage them to use official channels.

Inculcate a positive attitude towards remittances

Remittance management is related to the attitude of family members left behind on remittances. Remittances may be considered unrestricted income by those who receive them. Consequently, its value is devalued, leading to an irrational preference for leisure over other productive activities. To ensure that the full potential of remittances is fulfilled, remittance management guidelines might be issued.

Improving remittance management at the micro level would simultaneously raise demand for superior remittance services, stimulate competition, and lower prices. Similarly, enhanced micro-level management of remittances will optimize the benefits of remittances, resulting in more favorable socioeconomic outcomes for migrants and their families.

Road to economic resilience through capital market development

Sri Lanka is currently going through the worst economic crisis in decades in terms of economic and political uncertainties, being recently defaulted on its debt repayments leading to mass protests across the country. The government went into default on its debt in May 2022 as a result of years of economic mismanagement that left the public purse empty and a small number of elites richer. Extreme gasoline and gas shortages, currency depreciation that nearly caused hyperinflation, a paucity of pharmaceuticals, and protracted power outages were all recent events that were largely attributed to a lack of foreign cash. The nation is currently considering an IMF rescue, but first, it must restructure its debt. The only bright side to Sri Lanka's economic catastrophe may be the long overdue, significant economic reforms that will be necessary to navigate the crisis as the country teeters on the precipice.

FINANCE OUTLOOK

Importance of the Capital Market to a Healthy Economy

A free-market economy includes the capital market as one of its elements. It enables businesses to raise funds by selling stock shares and corporate bonds, and it gives investors a chance to profit from the business's financial success through capital gains and dividend payments. The stock market serves as a platform for directing individual investors' savings and investments into profitable business ventures, which helps the nation's capital formation and economic expansion. Hence, a healthy capital market would provide positive signals to the economy regarding its expansions and recoveries.

Where do we stand among the rest of the world?

There are numerous regional stock exchanges all around the world that engage in trading stocks established or operating in respective regions. The New York Stock Exchange, the Tokyo Stock Exchange, and the markets in Hong Kong and India are just a few of the significant marketplaces. Colombo Stock Exchange (CSE) is a frontier market, yet investors that trade there are seeing enormous profits.

The CSE has also experienced huge volatilities in stock prices owing its shallow market characteristics being a frontier capital market. The All-Shares Price Index, the premier index used to gauge the performance of equities in this market, demonstrates the highly volatile nature of the index returns over the past few decades. Figure 01 illustrates the daily All Share Price Index (ASPI) volatility in the CSE from 1994 to 2020, indicating very high volatility of daily index prices

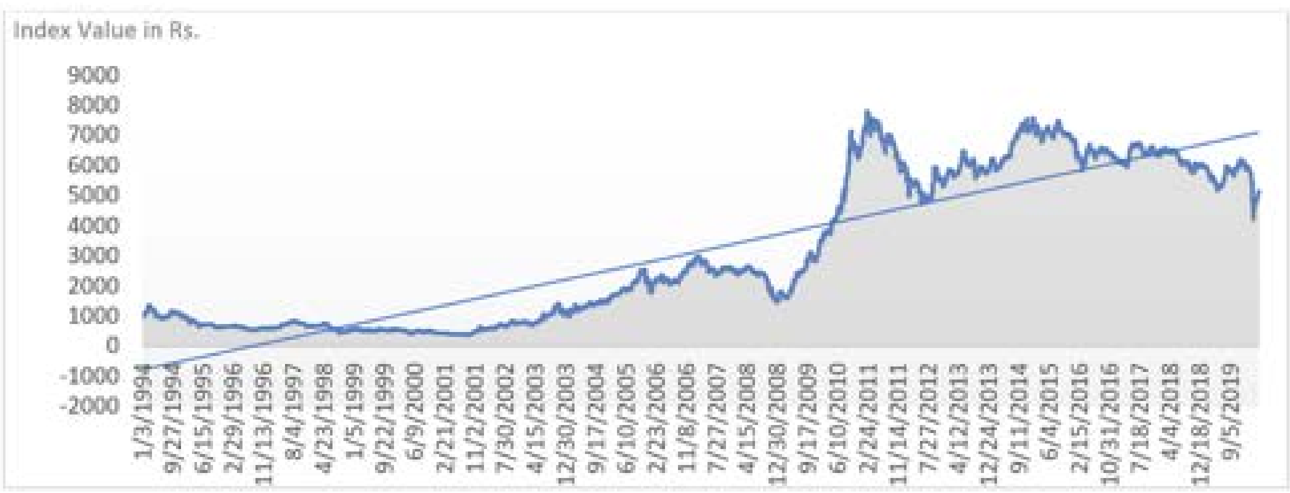

Figure 1 CSE Daily ASPI price volatility from 1994 to 2020 (CSE data, 1994-2021)

IN terms of the overall growth of the stock market since its inception, CSE has shown massive growth despite its highly volatile nature. When looking at the other popular stock markets around the world, the Japanese Nikkei index has gained a total of only 15.45% during the past 12 months compared to the same period in 2016. The US market has only expanded by 26.40%, which is hardly much more growth. In the past year, the stock markets in India and Hong Kong have grown by 28.34% and 54.99% respectively. For the majority of financial analysts, these indicate enormous gains that are unusually rapid. But in terms of growth, the CSE is outpacing them all being a capital market in the frontier category.

Indeed, the CSE does not exchange nearly as many shares each day as the other marketplaces do. It is also true, though, that investors in this market are earning significantly bigger returns at the expense of higher risk as well. Looking back at the history of capital market performance, it was evidenced that the performance of the CSE deviates from the accepted norm. It does not go in line with the economic performance of the country as shown in figure 02 below.

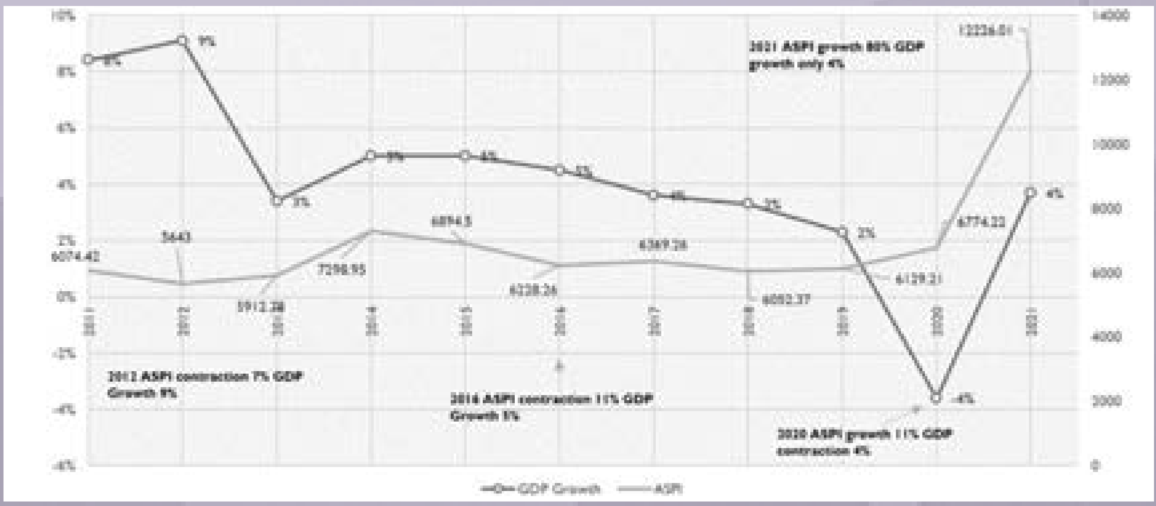

Figure 1:

GDP Growth vs ASPI index over 2011 to 2021

Source: CBSL, CSE

Also, in the recent past, despite the Covid-19 pandemic and several market halts and shutdowns, individual investor participation has increased as a result of CSE moving to a more online-based platform. This caters to the timely need of the country where it is required to encourage investors to participate in the stock market operations as well as promote the capital market development. Figure 03 below shows the daily average turnover and the local investor participation over the past decade in the CSE.

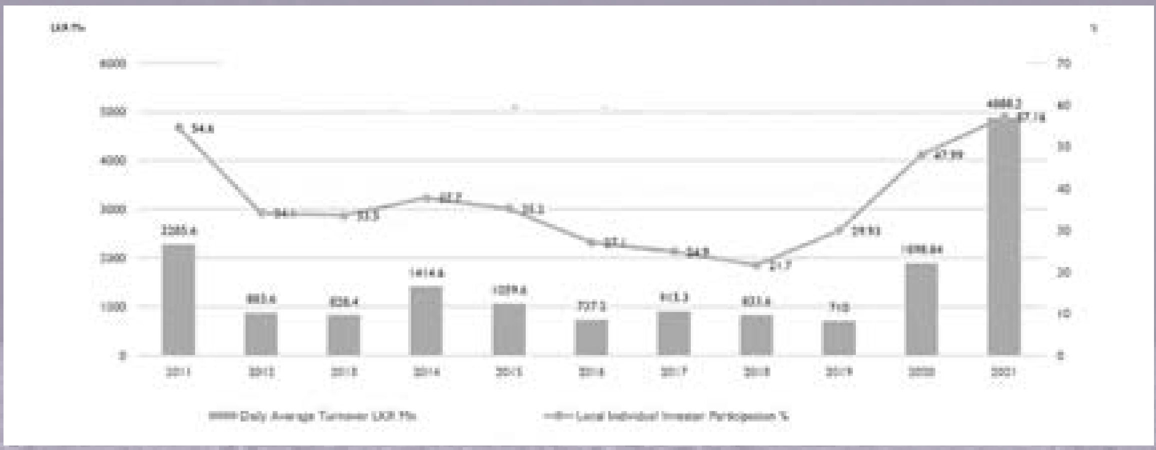

Figure 1:

Daily average turnover and the local investor participation from 2011 - 2021

Source: CSE data

This provides positive signals to the capital market regulators on the need for capital market development as an aiding tool for economic resilience which is the need of the hour for Sri Lanka

CAPITAL MARKET DEVELOPMENT FOR ECONOMIC RECOVERY

It is a well-known fact that the capital market of a country is extremely important for its growth and in Sri Lanka's case, the CSE must perform well so that it will be a positive factor in the recovery of the country's economic situation. Capital markets increase the amount of savings in the economy and increase the amount of capital available to businesses, which may then lead to the creation of jobs and real wage growth. Further, regular capital market development efforts will enhance the market which eventually leads to better contributions to the economic recovery. This includes improving both the demand and supply sides of the capital market. While encouraging more companies to get listed would increase the supply force, increased investor participation would lift the demand forces of the capital market.

Capital market regulators need to focus more on their efforts to raise investor awareness and educate the public through investor education and assist them in grasping the basics of equity investing so the investors can make more informed and wise investment choices. This includes teaching them where to find the information Additionally, the regulator should inform investors about insider trading and market manipulation while educating them about the risks and how long-term returns may ultimately outweigh the risks.

CSE has taken new initiatives to attract new investors to the market. Digitalization was one of their most important initiatives. Together with Sri Lanka's Securities and Exchange Commission (SEC), which oversees the capital market, developed an app that enables people to open and access their CDS accounts entirely online, as opposed to the previous requirement for extensive physical documentation and broker branch visits. Investors can now open a new account within an hour by choosing a broker through the CSE app. This has now become a deal-breaker as the younger generation of the country is more towards online platforms as it is more convenient and less time-consuming. Hence it is required to focus more on further developing such features available to the investors.

Also, it is required to attract and expedite new listings on the CSE as it will enhance the capital market's depth and breadth. These are very important features of a successful and well-performing capital market. Additionally, encouraging private and state-owned enterprises to get listed on the CSE would facilitate this more as it will enhance the overall economic representation in the capital market. This can be facilitated via interacting with businesses, educating them on the advantages of listing, and assisting them in overcoming potential barriers to going public. The SEC is collaborating with CSE to simplify the approvals process and listing requirements so that a wider range of businesses can raise capital through an IPO. Encouraging state-owned entities and FDI projects like the port city to get listed, would expand the investors' opportunities in the market as well as lessen the burden on the Treasury of meeting the ongoing capital requirements of state-owned enterprises.

It is crucial to revisit the laws and policies on the capital market regularly for timely revisions that are much required with the market's changing needs. For example, moving away from a physical trading platform to an online based platform requires a lot of attention to the existing regulatory procedures of the CSE processes which apply to investors as well as fundraisers. Ultimately it will promote the efficiency of the capital market operation while securing the market for investors. Meanwhile taking steps to improve investor confidence in the capital market would also attract more local and foreign investors to the market. Overall, taking little steps forward in capital market development with innovative ideas would lead to a better fundraising platform for the entities while providing a better trading platform to the investors as well. Hence, the regulators' continuous and timely capital market developments would facilitate the much-needed economic resilience that would be achieved for a better Sri Lanka in the years to come.

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HOW CAN SRI LANKA GET OUT OF THE DEBT CRISIS WITH THE HELP OF INTERNATIONAL MONETARY FUND

As at 2022, Sri Lanka is facing a brick wall; there is a raging foreign currency (forex) crisis owing to low levels of foreign exchange reserves maintained by the Central Bank, a major monthly trade deficit with the outside world, huge foreign loan repayments due this year and for years to come, and no obvious solution to this issue. Authorities are finding it difficult to pay for shiploads of fuel, cooking gas, and food that are moored at Colombo port as a result of the dollar scarcity. At the same time, there were hours-long lineups of people and automobiles approaching gas stations and sellers of cooking gas. The public is divided over whether the nation should approach the IMF and restructure the debt, possibly take out additional loans from China and other Asian nations, or even declare bankruptcy. None of these are appealing, but more significantly, none of these solutions will by itself resolve Sri Lanka's long-term issue. The crisis within the country happened back in 2020 when the COVID-19 virus weakened the economy as Sri Lanka was one of the countries that heavily depended on revenue generated from tourism. However, long before the pandemic, Sri Lanka has been heavily reliant on loans both local and foreign for its development projects and settlement of deficits in economic variables.

However, the debt crisis did not arise only because of obtaining immense loans but also because the funds obtained were not put into effective usage such as profit generating projects that have positive payback returns. Furthermore, the aggressive political corruption within the country and misuse of obtained funds further deteriorated the economic crisis of the country. If we take analytics into account, Sri Lanka currently has ($50.5 billion debt) as of 2022, but the annual revenue of Sri Lanka is fairly low to even pay the interest expenses of the principal amount. To make matters worse, Sri Lanka cannot borrow and secure that borrowing against its assets in the same manner that nations like the UK can because international lenders cannot be certain that Sri Lanka will not default on their debt (and all those people pushing the government to default).

We live in a developing nation with a lot of worth. However, we are unsure of how to use it. We still fight with antiquated ideas of sovereignty and lack the understanding required to completely open our economy and allow the rest of the world to benefit from capitalism. One of the best methods for resolving the problem is to enlist the help of the International Monetary Fund.

The executive board of Sri Lanka approached the IMF in February 2022, and discussions are still underway. To help Sri Lanka overcome its economic problems and regain economic stability, the International Monetary Fund has still conditionally agreed to grant the country $2.9 billion over the course of 48 months. The IMF's Extended Fund Facility, which assists countries with their cash flow or balance of payments problems, will be used to give the loan.

It will not be distributed until an adequate debt restructuring plan, including debt reduction, has been agreed upon by the Sri Lankan government and the country's creditors. The International Monetary Fund has informally agreed to lend Sri Lanka $2.9 billion for 48 months in order to aid in its economic crisis recovery and return to economic stability.

The IMF team conducted fruitful and beneficial conversations with the authorities about economic reforms and policies that would be aided by an Extended Fund Facility (EFF) agreement with the IMF.

Discussions will essentially continue in the direction of a staff-level agreement on the EFF arrangement in the near future after significant progress has been achieved. Since the beginning of April, the government has taken significant initial measures to resolve the problem via its monetary, fiscal, and other policies. In order for Sri Lanka's economic policies and reforms to be backed by an IMF Extended Fund Facility (EFF) arrangement, the team conducted positive and fruitful conversations with the country's leadership. Definition of a macroeconomic and structural policy package made great progress between the staff team and the authorities. The virtual conversations will go on with the goal of quickly coming to a staff-level consensus on the EFF arrangement. Executive Board approval would need sufficient finance guarantees from Sri Lanka's creditors that debt sustainability would be restored since governmental debt is considered to be unsustainable.

The new IMF-backed program's goals would be to restore macroeconomic stability and debt sustainability while ensuring financial stability, protecting the weak and poor, and accelerating structural reforms to reduce corruption risks and maximize Sri Lanka's development potential.

The additional loan must also be approved by the IMF's executive board and management, according to the IMF. The loan could not be granted until the Sri Lankan government had successfully completed a debt restructuring, including debt relief arrangements with foreign creditors. As a consequence, the existence of agreements and Sri Lanka's ability to repay its loans depends on the IMF obtaining financial guarantees from Sri Lanka's official creditors.

To satisfy the IMF, the local government had to have made earnest efforts to cooperate with all other private creditors.

The initiative also includes changes to reduce corruption and improve financial transparency. If authorized, the IMF will sanction the first batch of funds, and further payments will be provided throughout the IMF's EFF program periods. Prior to each payment round, there will be a review.

Along with providing loans, Sri Lanka will also get assistance from the loan package in enacting important tax changes, including more equitable taxation, wider corporate and VAT taxes, and increasing revenue. It aims to help the Sri Lankan government reach a 2.3% GDP budget surplus by 2024.

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TAX REFORMS IN SRI LANKA TOWARDS SHAPING OUR FUTURE

TAX SYSTEM IN ANCIENT SRI LANKA

There are numerous of evidence available from different sources such as historical documents, inscriptions, and ancient literature to prove an organized taxation system that existed a long time ago in the country before the introduction of the present tax system. The fees paid for the use of water for agricultural purposes, taxes gathered at the import and export points, land taxes, and commodity taxes are mentioned in inscriptional records from the third century BC. Historical records provide evidence not only of the country's taxation policy but also of a strong tax administration system. Concerning tax administration, the officials were appointed by the king for collecting the taxes on behalf of the state. Also, the collected taxes were used in an effective way to ensure the effectiveness and efficiency of the fiscal policy framework in the country.

For example, Carts carrying grain supplies to the city had to pay taxes in kind at the point of entering the city and these collections were directed to the "Mahapola Alms Hall" a dwelling house for the Buddhist clergy. Robert Knox highlighted the Sri Lankan tax system in his book 'Historical Relation of Ceylon' in 1681 and stated how the taxes were collected three times a year and how the collected taxes were directed to the king's treasury. According to Knox's record, there had been different rates of taxes and taxes paid in kind. Such items included gems, wine, oil, corn, honey, wax, cloth, iron, tobacco, and even elephant teeth ('Tax System in Ancient Sri Lanka',2015)

CURRENT TAX SYSTEM IN SRI LANKA

To formalize the country's fiscal policy implementation, the Inland Revenue Department (IRD) was established in 1932. The Inland Revenue Act No.24 of 2017 and the latest amendment Act No.10 of 2021 are the prevailing income tax law in the country. Sri Lanka uses a self-assessment tax payment system, which requires each tax-payer to determine their tax due and pay the appropriate amount in accordance with the applicable rules and regulations. IRD collects tax revenue in terms of Income Taxes (IT), Value Added Taxes (VAT), Betting and Gaming Levy (BGL), Stamp Duty (SD), Share Transaction Levy (STL), Capital Gain Tax (CGT), etc.

As per the annual performance report of the IRD, 2021, as depicted in Figure 1 below, 47.79% of total revenue collection by the department is from income taxes and 48.7% is from VAT. Other than that, other taxes constitute a significantly low contribution to the total revenue collection. Accordingly, the Sri Lankan government's main sources of taxes are IT and VAT.

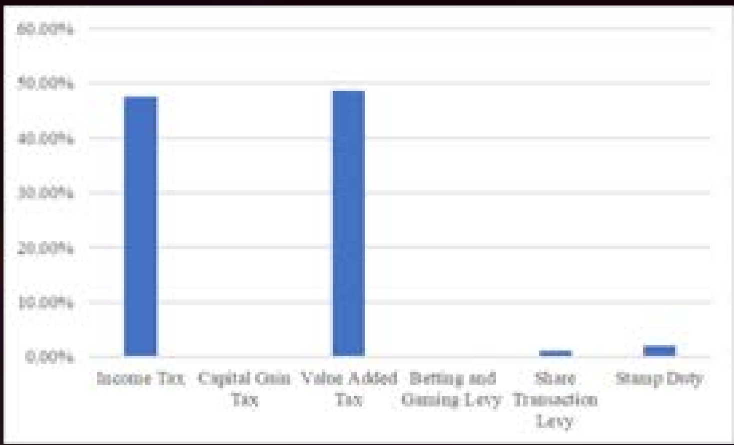


Figure 1:
Total Revenue Collection -2021
Source: Annual Performance Report of IRD, 2021

IMPACT OF RECENT TAX CUTS ON THE SRI LANKAN ECONOMY

The economic unrest that the country is facing today is mainly due to various political mismanagements. The COVID-19 pandemic led to higher healthcare expenditures and a sharp rise in government spending on social security programs and when the state funds were already breaking under the weight of a faltering economy, Sri Lankan government also announced deep tax cuts. Among these changes to the fiscal policy, the most prominent change was the reduction of the VAT rate from 15% to 8%. While the Nation Building Tax (NBT) of 2 percent was abolished and combined with the Ports and Airport Development Levy, the tax on Telecommunication Tariffs was reduced by 2.5 percent. A few other taxes that were eliminated include the Economic Service Charge, Debit Tax on Banking and Financial Institutions, VAT on Sovereign Property, Capital Gains Tax on the Share Market, Pay As You Earn (PAYE) Tax, Credit Service Tax, and the Withholding Tax on Interest Income. The consequences of these fiscal policy changes in 2019 have led to a substantial reduction of total government revenue by around 50% as shown in the Figure 2 below.

Type of Tax	2020 Revenue Collection Rs.	2019 Revenue Collection Rs.	Increase/ Decrease of Collection as a %
Income tax	252,941,572,901	371,795,681,316	-31.97%
Capital Gain Tax	357,594,125	602,439,115	-40.64%
Value Added Tax	233,786,120,184	443,877,131,612	-47.33%
Debt Repayment Levy	3,002,271,834	28,673,572,980	-89.53%
Betting & Gaming Levy	1,428,071,291	2,435,982,807	-41.38%
Share Transaction Levy	2,347,277,681	1,023,443,599	129.35%
Migrating Tax	5,853,185	5,008,044	16.88%
Stamp Duty	11,354,837,819	14,863,016,823	-23.60%
Economic Service Charge	14,950,042,437	55,301,397,165	-72.97%
Nation Building Tax	3,740,463,661	105,185,802,597	-96.44%
Goods & Services Tax	226,221	17,036,964	-98.67%
Turnover Tax	16,257,541	29,626,965	-45.13%
National Security Levy	2,399,368	9,045,921	-73.48%
Construction Industry Guarantee Fund Levy	636,657	1,219,286	-47.78%
Vehicle Entitlement Levy	-	1,498,601,586	-100.00%
Total Revenue Collection	**523,933,624,905**	**1,025,319,006,780**	**-48.90%**

Figure 2:
Revenue Comparison of the Year 2020 with 2019
Source: IRD Performance Report 2020

These tax cuts have badly affected the key economic indicators of the country including the tax revenue-to-GDP ratio which has decreased from 11.6 percent to its lowest of 7.7 percent in 2021, while the government revenue-to-GDP ratio decreased from 9.1 percent in 2020 to 8.7 percent in 2021, ultimately resulting in the lowest revenue to GDP ratio in the region. Furthermore, there has been a decline in Sri Lanka's tax base between 2019 and 2020 with a 33.5% decline in the number of registered tax-payers (corporate and individual) in the country. This is mainly due to the increase of the tax-free threshold from Rs.500,000 per annum to Rs 3,000,000 and increasing the increase in VAT registration threshold from Rs.12 million per annum to Rs.300 million per annum. Also, these fiscal policy changes have led to a further deepening government budget deficit significantly from 11.1% of GDP in 2020 to 12.2% of GDP in 2021 from 9.6% of GDP in 2019, and the resulting increase in the outstanding central government debt to GDP ratio to 104.6% in 2021, from 100.6% in 2020, 86.9% in 2019 and 84.2% in 2018. (CBSL Annual Report, 2021). The tax cuts resulted in the loss of total government tax income by Rs. 600 billion- Rs.800 billion.

Building Our Nation, Shaping Our Future: Tax Reforms to be Made in Reviving the Sri Lankan Economy

Due to the Law tax regime introduced in late 2019 and the negative economic consequences of the COVID-19 pandemic, the budgetary operations of the central government are further weakened in 2021 reflecting the impact of deep-rooted fiscal imbalances and unintended consequences of certain fiscal policy measures. According to the fiscal sector statistics of the Ministry of Finance, the overall budget deficit as a percentage of GDP further weakened to 12.2 percent (Rs. 2,057.9 billion) in 2021 from 11.1 percent (Rs. 1,667.7 billion) reported in 2020. This significant government income reduction put pressure on the general treasury to finance the required fund to meet government expenditures including public servants' salaries, wages, pensions, interest payments, samurdhi, etc. The Government mainly relied on domestic sources to finance the overall budget deficit in 2021 (mainly banking sources), reflecting its preference of the Government to reduce the exposure to foreign financing alternatives, amidst the limited access to foreign sources. Central bank monetary financing has unfavorably affected the Sri Lankan economy, in terms of its inflation and exchange rate (News. lk, 2022). The continuation of this model is unsustainable. Hence, the government shall implement a strong fiscal consolidation plan focusing mainly on boosting government revenue and controlling expenditure with immediate effect. Further, the government shall ensure the continuation of such a solid fiscal policy framework in the future to ensure the macroeconomic stability of the country.

In the above background, conforming to the interim budget presented on 30th August 2022, the Inland Revenue (Amendments) Bill – Gazette supplementary has been issued on the 11th of October 2022. The following Figure 3 summarizes the salient features of the Bill which includes various revisions to tax rates, thresholds, exemptions, etc., and the changes to the Value Added Tax with effect from 01st September 2022 imposed through the enactment of Value Added Tax (Amendment) Act No.9 of 2021. These proposed changes are subject to committee-stage amendments and will be effective upon the Bill being signed into law.

Type of Tax	Proposed Changes	Effective date
Value Added Tax:		
VAT	Increasing VAT rate from 15%	2022/09/01
	Decreasing VAT threshold from Rs. 300 million per annum to Rs. 120 million per annum	2022/10/01
	Removal of the VAT exemption on Condominium Residential Apartments	2022/10/01
	Removal of zero percent VAT rate granted on the supply of services by a hotel, guest house, restaurant or other similar businesses providing similar services, registered with the Sri Lanka Tourism Development Authority, if sixty per centum of the total value of the inputs are sourced from local supplies/sources and imposition of 12 percent tax rate on the same	2022/06/01
Telecommunication Levy	increase the Telecommunication Levy from 11.25 percent to 15 percent	2022/06/02
Personal Income Tax		
Tax-Free Allowance	Reduction from Rs. 3 million per year of assessment to Rs. 1.2 million	2022/10/01
Personal Income Tax Rate	Revision of Personal Income Tax Rates Taxable Income (Rs.) – Tax Rate (%) First 500,000 – 6 Next 500,000 – 12 Next 500,000 – 18 Next 500,000 – 24 Next 500,000 – 30 Balance – 36	
Expenditure Relief	• Restricted to Rs.600,000 incurred in the first 6 months of the Y/A 2022/23 • Will not apply from 1/10/2022 onwards.	
Withholding Tax (WHT)		
Advance Personal Income Tax	Employers are mandated to deduct withholding tax as Advance Personal Income Tax ("APIT") from any payments made to employees.	2022/10/01
WHT on investment returns	Re-introduction of • rent payments made to a resident person where the aggregate payment does not exceed Rs. 100,000 per month – 0%	

	• rent payments made to a resident person where the aggregate payment exceeds or is equal to Rs. 100,000 per month – 10% on full amount • interest or discount paid –5% • all other payments except dividend – 14% • dividends-15% (Final Tax)	
WHT on payments made to Non-residents	Any person making a payment for service fee or an insurance premium with a source in Sri Lanka to a non-resident person will be liable to withhold tax at 14% or the relevant DTA rate with effect from the commencement of the amendment act.	
WHT on service fees	Service fee paid with a source in Sri Lanka to a resident individual who is not an employee of the payer and exceeds Rs. 100,000 per month will be subject to withholding tax at the rate of 5%.	
Corporate Income Tax		
Corporate Income Tax Rates	Standard Rate – 30% Liquor, Tobacco, Betting and Gaming – 40%	
Concessionary Rates	The Concessionary rate available for certain sectors such as exports, tourism, healthcare, education, construction, renewable energy etc. as well as SMEs will be removed.	
Tax rates of other entities	Trusts: increase of tax rate to 30% from 18% Unit Trusts and Mutual Funds: increase of tax rate to 30% from 24% Non-Governmental Organizations: increase of tax rate to 30% from 24%	

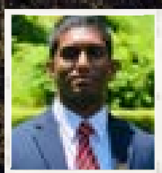
Figure 3:
Recent Tax Changes
Source: Income Tax Alerts – October 2022, BDO Partners

Accordingly, these tax changes are mainly focusing on increasing the proportion of direct taxes to the government revenue. So, the proposed tax changes will help to increase government revenue and reduce the pressure quantum of monetary financing for government expenditure. Meanwhile, the government also expects to present new revenue-enhancing proposals aiming at Budget 2023.

Reviving the Economy for a Better Future

The government's fiscal reform commitments under the IMF program target reducing the central government budget deficit through the proposed tax reforms. These reforms include making the personal income tax more progressive and broadening the tax base for corporate income tax and VAT.

The program aims to reach a primary surplus of 2.3 percent of GDP by 2025 (IMF, 2022). However, considering the country's large, short to medium-term fiscal needs to support sustainable growth, a more aggressive short to medium-term adjustment path is required for a longer adjustment period beyond 2025. Thus, the country must implement a tax policy reform to create a simple, efficient, and fair tax regime focused squarely on raising revenue (requiring a broadening of the tax base and rationalization of the extensive tax expenditures and incentives). Also, the government shall focus on further improvement of tax administration including building capacity in revenue administration and enhancing efficiency, including through the new information technology system and organizational reforms. Further, the tax reforms proposed by the government have put so much pressure on the public during the period of inflation in the country. However, the government shall make sure that collected funds through taxes are deployed to make a better future for the country. Especially, the government shall focus on improving the efficiency of State-Owned Enterprises (SOE) through the structural reforms in place for those entities. Despite their pivotal role in the economy across strategic sectors, the poor financial performance of SOEs has become a heavy fiscal burden with significant macroeconomic implications. The excessive reliance of SOEs on the banking system to fund their losses has not only crowded out productive investments but also rendered the financial system vulnerable to their weak financial performance. Thus, structural reforms of SOEs are also timely needed together with fiscal policy reforms to way out of the economic crisis. We wish that the proposed tax reform would help the central government to pull the bankrupt nation out of its economic unrest.



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MANAGING SRI LANKA'S

FOREIGN RESERVES

At present Sri Lanka is facing a massive economic crisis. Even though the Covid-19 pandemic started to escalate gradually into an economic recession, there were many other reasons why Sri Lanka has fallen into a distressed situation today. Declining of official foreign reserves, rising commodity prices, power and fuel shortages, unprecedented political turmoil, downgrading of sovereign ratings, depreciation of exchange rates, and extremely low fiscal space are one of the reasons for the economic crisis today. It was observed that one of the main causes of this economic crisis is the depletion of foreign reserves in the country. Hence, the article suggests the following strategies that the government could use to raise the foreign reserves in the country.

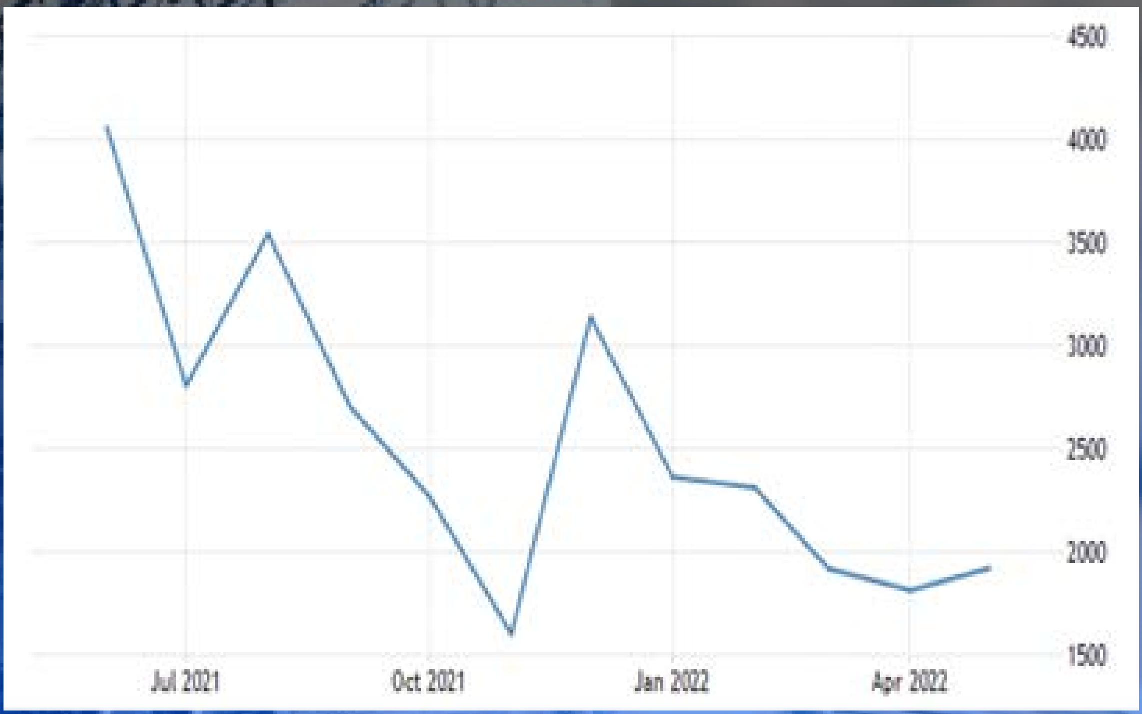

Figure 1:
Sri Lanka Foreign Exchange Reserves
Source: Central Bank of Sri Lanka

ENSURE THE FOREIGN EXCHANGE RATE REMAINS FLEXIBLE WITH AN ALLOWABLE VARIATION MARGIN

01

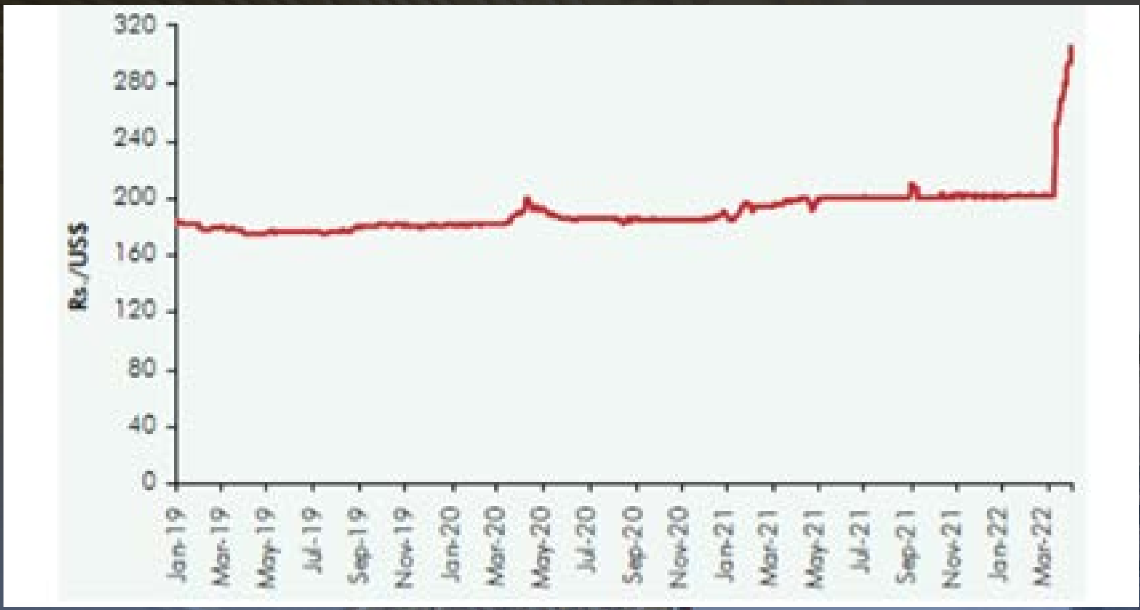

Figure 2:
Exchange rate movement- Rupee per USD
Source: Central Bank of Sri Lanka

Even though Sri Lanka had a floating exchange rate, technically the Central Bank used a pegged rate or a managed float till then. In March 2022 the Monetary Board decided to allow greater flexibility in the foreign exchange rate which is a logical move. By doing so, it narrowed down the gap between the official exchange rate and the grey market rate. There is a demand and supply in terms of the dollar market and what the government has done previously was to keep at a forced rupee rate which is an unrealistic price. Therefore, going forward to increase the foreign reserves in Sri Lanka, the Central Bank should ensure that the exchange rate remains flexible as it reflects the true market movement. Due to the fact that the country seized the exchange rate and not allowing it to move with the market forces, foreign workers transferred their remittance through many informal channels such as “Hawala” and “Undiyal” which has not been reflected in the calculation of Balance of Payment. Hence, with this policy movement, the Central Bank is expecting that there will be more remittances from workers. With the flexibility of the exchange rates, there will be some consequences instant such as price hikes. Therefore, the Central Bank makes sure to allow this flexibility with a two-sided variation margin (cbsl.gov.lk).

EXTERNAL DEBT RESTRUCTURING 02

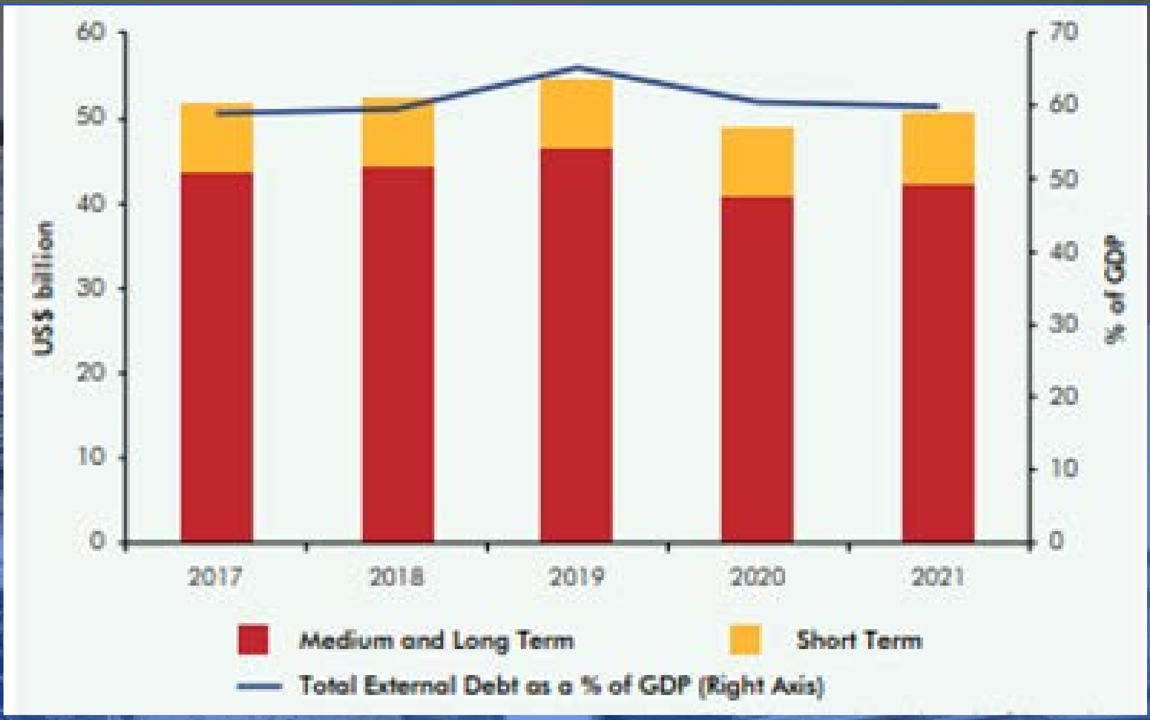

Figure 3:
External Debt
Source: Central Bank of Sri Lanka

Sri Lanka announced its first foreign currency sovereign debt default in April 2022 due to the severe foreign currency shortage. The Central Bank has made such a decision after starting its discussions with the International Monetary Fund (IMF) as they are in the middle of a debt restructuring process. According to Figure 3 Sri Lanka's total short-term, medium- and long-term external debts have increased up to US dollars 50.7 billion at the end of the year 2021. The same value at the end of 2020 was US dollars 49 billion. According to Figure 4 around 20% of foreign debts are owed to Chinese Creditors. The total outstanding payments to China are due to the China Development Bank (CDB) and EXIM Bank of China. Therefore, with the assistance and assurance of the IMF, if Sri Lanka could arrange concessions and moratoriums the government could temporarily suspend repaying the debts which might preserve the foreign reserves in the country and the same can be reallocated to import the essential goods.

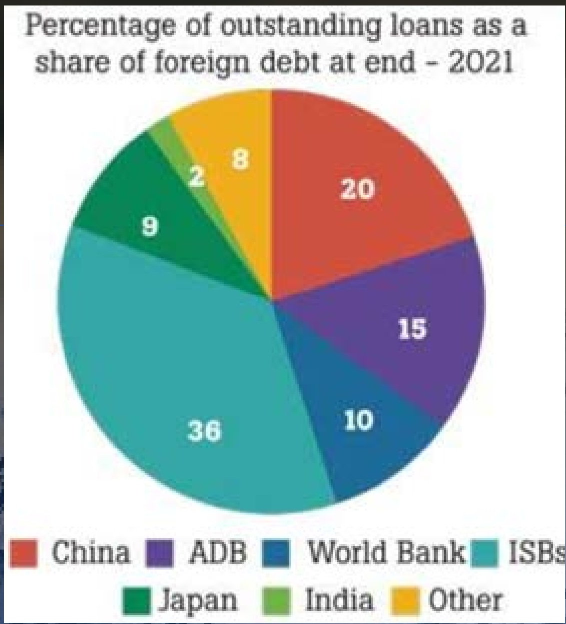

Figure 4:
Foreign Debt Composition of Sri Lanka
Source: Central Bank of Sri Lanka

AN ECONOMIC ADJUSTMENT AND STABILIZATION PROGRAMME WITH THE IMF 03

International Monetary Fund (IMF) is an organization that assists countries that are hit by economical and financial crises. The organization will provide financial support and adjust the policies to restore the economic and financial stability of the country. As Sri Lanka is facing a massive economic crisis, the government had nothing to do but seek the assistance of the IMF. Hence, the Sri Lankan government must work with the IMF to solve the country's economic crisis. With these economic adjustment programs, the IMF can help Sri Lanka not only to increase the foreign reserve level in the country but also to overcome the Balance of Payment (BOP) problems, rebuild the economy and stabilize the country, etc.

Moving forward with the IMF programs would enhance investor confidence and can expect foreign non-debt inflows to the country as it gives assurance to the investors. However, in order to do so, Sri Lanka should have political stability.

IMPROVE THE EXPORT PROCEEDS AND IMPLEMENT IMPORT RESTRICTIONS ON A MORE CONDITIONAL BASIS

04

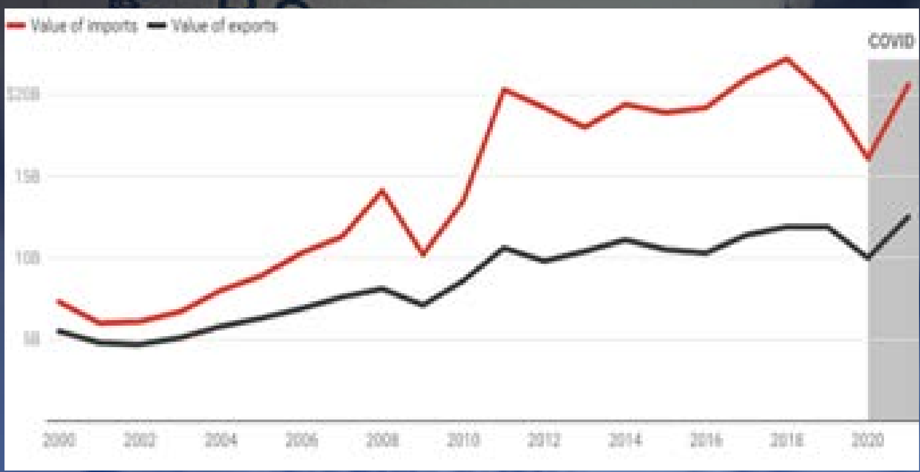

Figure 5:
Gross Value of Imports and Exports
Source: Central Bank of Sri Lanka

Sri Lanka is heavily dependent on imported goods including fuel, pharmaceuticals, vehicles, electrical machinery, and food. But due to the severe shortage of foreign reserves in the country, Sri Lanka is incapable of importing certain goods. Also, to control the economic situation, the government has restricted or rather controlled a series of non-essential goods. Due to this suspension, was expected to reduce the import expenditure by 2.4% of GDP. But as an economic advisor, it is recommended that these restrictions on imports would be only worked out as desired if the government executes the restrictions on imports on a more controllable and conditional basis and not rather just impose restrictions on imports. Because if not, this would negatively be impacting the exporters as they are highly reliant on imported raw materials. One major reason why Sri Lanka has run out of foreign currency is that Sri Lanka imports more than it exports every year. Also, the trade deficit expanded due to the substantial increase in imports as well.

Therefore, if the government could improve the export proceeds (1 Bn USD per month), the country can reduce this matter to a certain extent. However, one good move was that the Central Bank ordered the exporters to take back the foreign exchange earnings within 180 days of transactions which might help to strengthen the foreign reserves in Sri Lanka. Also, as the advisory committee, the team has suggested several approaches including tax refunds or reduced tax rates, ease of export barriers (export licenses), neutral trade policy, effective exchange rate, favorable insurance rates, export subsidies, etc. to improve the export proceeds.

STRENGTHEN THE LEGAL REGULATORY FRAMEWORK ON INFORMAL MONEY TRANSFERS 05

As a result, that the Central Bank keeping the exchange rate on a pegged float, workers in foreign countries were inclined to send their remittances through informal money transfer channels such as Hawala, Hundi, and Undiyal. Due to this fact, Sri Lanka has faced many adverse effects such as lower tax income, earnings are not reflecting in the BOP, impact on money supply, leakage of money from the banking system, and impact on national security as well. Therefore, in order to demotivate such transfers and encourage foreign workers to remit their earnings through formal channels, the government should take the following actions. The government can conduct public awareness sessions such as discussions, newspapers, and TV advertisements, present incentive plans to transfer remittances through formal channels, seize fund transfers that come through informal channels, monitor, and restrictions those who are involved in such activities without proper licensing, etc.

IMPROVING TOURISM AND OUTSOURCED BACK OFFICE FUNCTIONS 06

Tourism was one of the largest foreign currency-earning sources (third largest) in Sri Lanka more than a decade ago. But due to the Covid-19 pandemic, the industry was severely affected, and it witnessed a decline in tourist arrival to Sri Lanka.

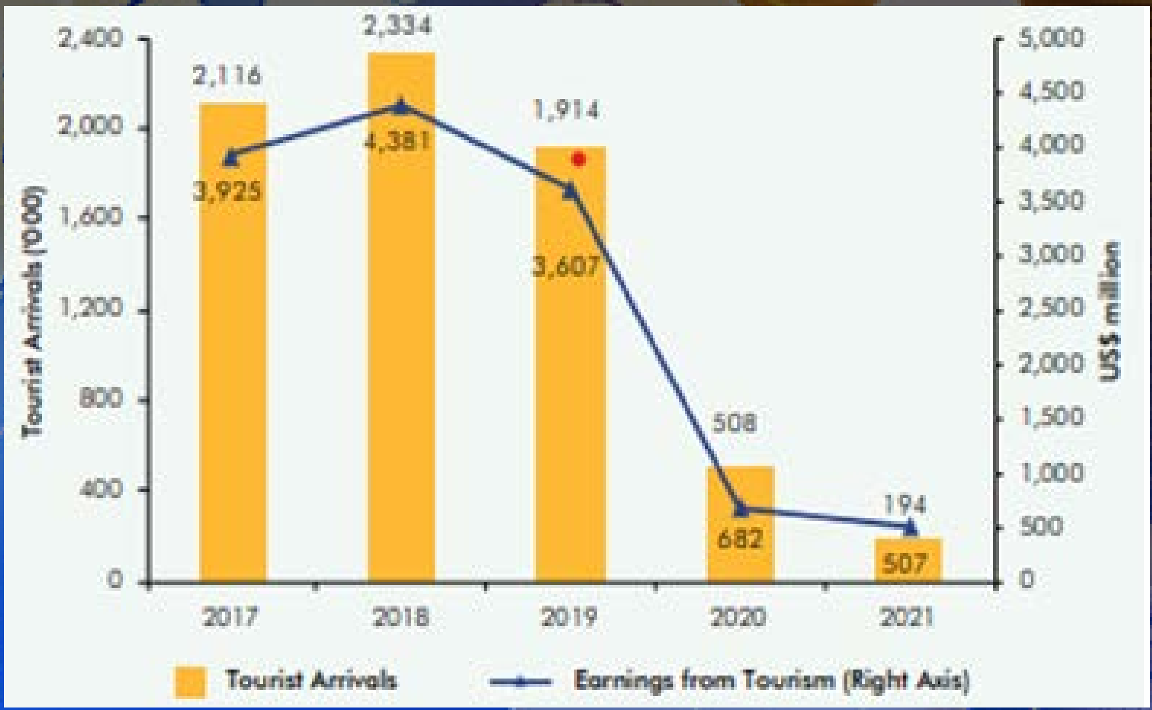

Figure 6:
Tourists Arrival and Earnings from Tourism
Source: Central Bank of Sri Lanka

Therefore, the government should take the necessary actions to develop the tourism industry and strengthen the foreign currency reserves and foreign direct investments in Sri Lanka. Restoration of taxes, ease of licensing, creating opportunities to boost promotions, making Sri Lanka a safer place to travel, greater use of digital technology, and focusing on the individual tourist's journey are some of the measures that the Sri Lankan government possibly can implement. Apart from the tourism industry, another emerging industry is providing back-office functions to overseas countries. Outsourcing back-office functions involves providing specific services such as accounting, marketing, payroll, human resources, and IT to a third-party provider. This strategy could implement in long term and by providing such services to foreign countries Sri Lanka can earn a higher foreign reserve the country.

FINANCE OUTLOOK

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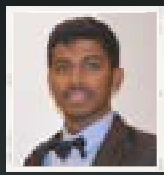

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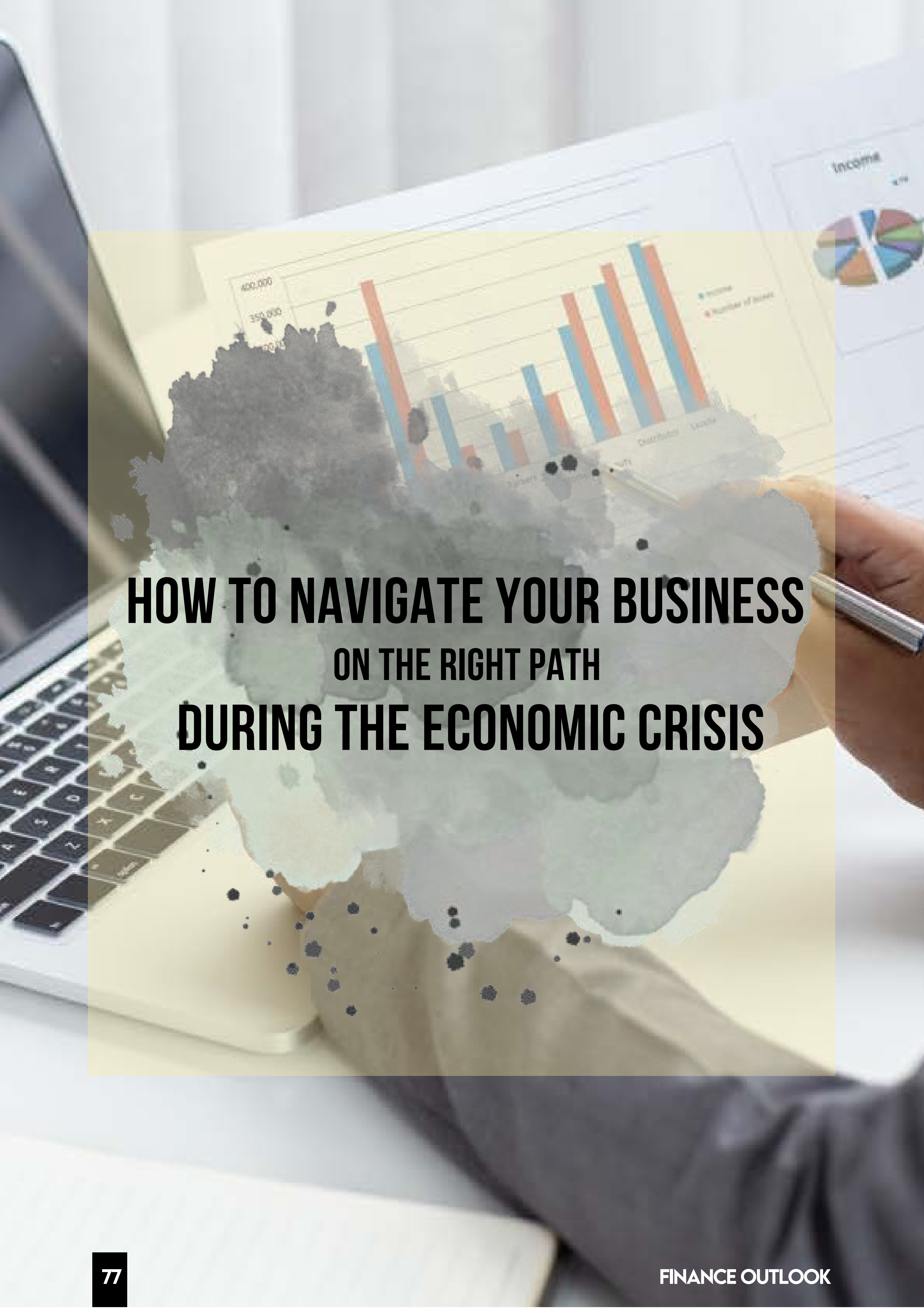

HOW TO NAVIGATE YOUR BUSINESS ON THE RIGHT PATH DURING THE ECONOMIC CRISIS

FINANCE OUTLOOK

The current state of the Sri Lankan economy has made it very difficult for organizations, investors, consumers, and all other parties in the economy to carry out their activities smoothly and in an upward facing trajectory. Most businesses, both small and large, are in conflict with whether or not they should close all operations and shut down their respective businesses. The crash in forex rates, unstable government, and rapidly skyrocketing inflation are some reasons for this. This article contains a few strategies that can be undertaken by all businesses to adapt, handle and overcome the challenges that come with financial and economic instability.

Businesses have been hit hard by the current situation and have seen a severe downturn in profitability and growth. SMEs (Small and Medium Enterprises) in particular are in absolute panic as the struggles faced by them in being able to acquire funds and new customers are far greater than for a business that is of a larger scale. Companies are struggling to keep existing customers and most organizations have seen a rapid drop in their revenues and profits. Due to the uncertainty in exchange rates and the depreciation of the Sri Lankan Rupee, the efficiency and competitiveness of domestic businesses have declined. Businesses are not being presented with new opportunities to grow and expand because the entire economy has collapsed.

As a party that is closely affiliated with businesses, Stakeholders have been affected adversely when businesses aren't seeing growth in revenue and when debt levels rise. Shareholders and owners have a great deal of risk to be born as uncertainty rises and profits drop. Creditors and debt providers are not lenient when organizations require additional assistance. Investors too face many challenges as stocks are experiencing high volatility because even financially sound companies may see a drop in share value. Employees are at high risk of job loss and students who are just entering the workforce are finding it extremely difficult to be employed by organizations.

THE IMPACT OF THE CURRENT SITUATION ON BUSINESSES AND THEIR STAKEHOLDERS

STRATEGIES TO PROCEED WITH IN ORDER TO FACE THE UNCERTAINTY

Firstly, it is important for organizations to assess the health of their business, in the sense that each company must analyze and identify the problems that have risen and the challenges that are being faced. Then, decisions must be made regarding aspects such as product pricing, marketing initiatives, hiring benefits as well as possible new launches. The next step is to implement change to make the business more resilient after trouble areas have been identified.

DEBT can be your worst enemy at times like this when quick recovery is needed.

It's important for businesses to try and embrace a more debt-free model. This is a large undertaking that requires the organization to put its foot down and say 'no' to requests and opportunities that might seem like a good fit but may actually be a drain on the resources. Financial analysts and managers must take decisions with a hefty amount of thought and evaluation. The uncertainty and turmoil that the current crisis has brought on have taken a toll on every business but it's particularly worrisome for small businesses which may not have the same financial cushioning as large companies. The SME industry of Sri Lanka has been affected greatly since they don't have the support that larger companies may get. For instance, a listed company can raise funds by means of the debt market and the capital market but it's harder for a small and medium enterprise to borrow in times like this. SMEs have fewer resources, lack economies of scale, asymmetric information, and higher transactional costs relative to large enterprises. This makes it especially hard for them to rise up when times are tough.

Businesses can use Marketing Strategies to their advantage to climb out of certain troublesome situations

In a situation where a Company or even a Small and Medium Enterprise is facing trouble due to a severe economic downturn, Marketing Strategies can help boost the revenue and help the organization cope with the situation. It is critical to track the marketing results and continue to monitor the marketing Key Performance Indicators. It is important to continue only with the marketing strategies that are delivering the desired results and those that aren't delivering the desired results must be stopped. Effective marketing and promotional campaigns can go a long way. Loyalty campaigns that have been geared towards recapturing past customers or increasing penetration with current customers can keep the customer base healthy. Often, acquiring new customers can be more costly than stimulating current ones. Target promotions as such can help increase market share.

Budget tracking - an important aspect for assuring continuity.

It's crucial that businesses continue to operate within their budget so that the business can maintain themselves in a position that will help facilitate recovery once the state of the economy improves. After the hit of Covid 19 which was followed by an unprecedented shock in the economy, it is clear that all businesses have to be careful and prepare for sudden challenges in order to be able to face anything that arises. Being in control and operating inside the budget is a safety net as it will help organizations of all sizes to bounce back up sooner.

Ensuring Stakeholder satisfaction will speed things up!

Employees of an organization play an integral part as the business fully relies on them to stay flexible, pivot, and think creatively during such a situation. Building up the skills of the employees and cross-training the staff can help. Investing in employees can help them feel more connected to the business and more willing to go the extra mile on behalf of the business when required.

Customers are another vital part of the success of any business. Establishing a good level of customer loyalty can prove to be beneficial. When building customer agreements, allowing them some flexibility and space for negotiation builds a good relationship between the business and the customer.

Offer rewards in return for contracted sales volume or customize offerings in exchange for faster payment terms. In addition, enhancing variables that help stabilize revenue streams and being flexible can create goodwill and repeat customers.

In an economic crisis, amidst all the challenges that any business will face internally, tackling the competition can be tough. Beating the competition and rising above by gaining an understanding of the strengths and opportunities of the business as well as being aware of the weaknesses and threats and working on them can give the organization a leading edge.

Turn the challenge into an opportunity for the future.

There are many things to take from the experiences that the crisis has brought along. For example, organizations can try to be prepared for any uncertainties the future may bring by creating an emergency business fund. SMEs in particular can benefit hugely by creating an emergency fund as they can't easily tap debt markets the way a large enterprise might. Thus, saving up for a rainy day can help to ensure business continuity and make ends meet in the face of a situation like the one we are facing currently. An organization stands out from another based on how tolerant it is to risk. Having an emergency fund that can cover six months' worth of costs can help the organization to be more open to risks and that can yield rewards in the future.

Companies and SMEs can fast-track their recovery by focusing on core competencies and doing extremely well in what their strengths are. Scaling back a step and increasing the quality of work can bring in more customers. Focusing on core competencies and trying to attract multiple streams of revenue will give more financial flexibility when times are tight.

Coming out of a crisis situation and deeming to be successful partially depends on having the wisdom and experience to patiently ride out the ups and downs of many business cycles. The ability to be levelheaded and facilitate crisis management in a long-term perspective supports any organization as does the foundational support of lower debt levels and lack of external shareholder pressure. Cash flow management and strictly adhering to a budget can be disciplinary measures that can help small, medium, and large-scale businesses take the challenges one step at a time.

Taking professional advice from a financial analyst can help each business focus on the specific ways that they can tackle economic and financial crisis situations but the above-mentioned strategies provide a more general understanding as to what should be done when things take a turn for the worse. Holding on and riding this out can be tough and cannot be done by all organizations, therefore learning from what has happened and adapting to it while adopting some strategies that will help the organization to be prepared in case this happens in the future will help any business tackle any crisis and come out of it successfully.

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FUTURE DEVELOPMENT THROUGH SMES BY THE CONTRIBUTION OF WOMEN ENTREPRENEURSHIP

Small and medium enterprises play a significant role in Asian developing countries. The growth of SMEs provide more employment opportunities, but with the current crisis in Sri Lanka unemployment rate has increased up to 5.1% along with 11.7% of poverty according to the macro poverty outlook by the world bank. According to most studies, greater opportunities for women to take part in economic activities as well-paid employees or as successful entrepreneurs certainly will help much in poverty reduction. But with the current economic crisis offering, white-collar jobs are not feasible . so we should go for our second option entrepreneurship. Entrepreneurship development is currently a prominent issue related to our country. It is publicly believed that lack of entrepreneurship together with limited, skilled workers, and technology have been the main important causes of relatively economic backwardness in Sri Lanka.

Since the highest percentage of economically inactive people consist of women, increases in women entrepreneurship leads to higher economic growth. Dr. Travis Perera, a member of postgraduate institute mentioned those small and medium enterprises are considered crucial for the development of women ,specially in rural areas. Although half of the percentage of Sri Lanka's population consists of women, only 34% of women are economically active among them. However, compared to the past contribution of women toward economic development was increasing. Among them, most of the women are from urban areas. Still, women from rural areas were facing more challenges in starting their businesses even though they had the talent and skills. Cheaper imports and foreign competition through liberalization are common to constrain that can be identified as the major challenges faced by developing countries. When focusing on rural areas the major challenge which facing by women entrepreneurs are low access to credit and monetary network. Apart from these women in Sri Lanka still play a significant role in economic development.

PENELOPE

Amra Wazeer is the founder of Penelope. Penelope is a business that is coming out of the results of overcoming the postpartum depression of Ms. Amra. Amra makes premium quality Ragdolls, plushies, and Quills in many shapes and sizes for adults and children. All her products are carefully designed with lots of attention to detail and one of the key points is she involved her customer in the Whole process. The quality of the product always depends on the materials. Amra always goes for the best material which she selects by herself.

Postpartum depression was quite common in our society. After developing Penelope as an outlet, she got the energy to overcome all the negativities. She found a new purpose for her life which she most enjoyed by herself.

Now Penelope is going towards their success for the fifth Year. She needs to break out the social restrictions which are marketing through Plastic dolls. Most Plastic dolls are fair-skinned and have slim figures. It is making negative thoughts about appearances in children's minds. To break this line Amra introduced more diversified and inclusive eco friendly toy market by introducing different types of ragdolls such as dark-skinned dolls, short dolls, tall dolls, curly-haired dolls, etc.

ODEL

Otara Gunawardena is a Sri Lankan Businessperson and Philanthropist. Otara's life and spirit have set the foundations for an extraordinarily Sri Lankan story.

A chance encounter with a friend in the Sri Lankan garment manufacturing industry and a small loan from her brother Ajit and mother led to Otara's first business venture, selling clothes from the boot of her station wagon in 1989. With a discerning eye, she found clothes manufactured in Sri Lanka that matched international trends and before long, incorporated her first retail store Odel at Dickman's Road (1999). Odel soon grew to be iconic in its representation of Sri Lanka and expansion of fashion retail.

And today she is one of most the powerful women in Sri Lanka. A small business in her car-made department store around the country and she exports too. She is not just an entrepreneur, she is a true citizen who works for the welfare of the country. And her love for animals is unconditional. After achieving her business goal, she left the business and became full-time social services. The results of her unconditional love towards animals made her embark which is built only to serve street animals.

ITI

Iti is a partnership that developed Nishanthi and Dulanga Kalapuge. This was a mother-daughter due. They started their business as a full-time job which fulfills their passion and enthusiasm for interior design. It all started with a simple candle kit that was bought a couple of years ago when Nishanthi rediscovered it and urged Dulanga to join her in finally trying it out.

As a first step of the process, they reused some of their old candles and manage to make a few floating candles, and they self-taught themselves by researching the process intensely and learning from candles around the world. Every candle they offer starts with a theme and idea which translated into a reusable vessel filled with a combination of fragrance features with a wooden wick to ensure sustainability and eco-friendliness.

As a startup, they have fallen short in supplying the domestic demand smoothly due to the lack of availability of storage. This was their major issue. It will help them to reduce the time between ordering and delivering.

SOAP STORIES

Rishma Rizvi who is a 19-year-old young entrepreneur at soap stories was able found start her own business at age of fifteen. She puts the fun in beauty and has a range of beauty products for the face and body. From luxury soap, face glazes, and body and lip butter mists, all products are handmade from the best natural, organic, local, and global ingredients for all skin. Rishma mixed the highest quality Ayurveda ingredients and practices with western ingredients and playing with the design and colors has enabled her to come up with products with amazing results for many types of skin. And today her products begin used and sold globally.

At this young age, she was able to run her own business by herself. The Instagram platform helps her to reach out to her business at a lower cost. And she followed the best quality photograph to seek the attention of consumers. Her photographs of products give the best impressions of her products. She always needed to do something creative in her way. When she went to Australia, she explored more in the handmade soap industry because at the beginning handmade soap industry was not much famous as now. She selected the science field for her higher studies which helps her to research more and gives moral support for her business

NELUM PLANT NURSERY

Nelum Devi is the founder of the nelum plant nursery. Before starting her own business, she was deployed in a reputed company with an attractive salary. But nelum Devi wanted to do something by herself. She left her job and started a nelum plant nursery which harvests Anthurium flowers. When she left the job she had many negative arguments with herself, but she believed in herself and started the business. Over years, her business was growing. She supplied Anthurium around the country.

And she thought of keeping the next step on to her business. Which exports her products around the world. At that point, she faced many financial difficulties to expand the business. Luckily, she joined the project of the Asian Development Bank,which facilities for women entrepreneurs.With the support of ADB, she completed her first step of exporting by increasing the capacity of her business.

JEZZA FASHION

Jeeza Ismail is the CEO of Jezza fashion. The history of Jezza fashion started with a single swing machine. The story of Jezza started with one man who never settled for anything less. During the 30-year war that left the beautiful island country of Sri Lanka devastated he left his hometown to find a safe place in Badulla with his newlywed bride. Who are the parents of Jeeza Ismail. The founder of JEZZA, Mr. N.L.A Jameel was a visionary of his time. He started the business with her wife Mrs. Raiza Jameel who was a mother of 2 children at this point and decided to pitch in. together, they started and they able to briefly run a successful clothing store in the small town of Badulla. Fast forward a few years they decided to move to Colombo ,which is the business hub of Sri Lanka. Once again, they set up roots in a new town,

When Jeeza was growing up in this environment she needed to do something new and creative for their business. She followed a degree in fashion marketing. And she made the turning point in Jezza's fashion history. They launched their first outlet in 2018 and today they have their main branch at One Galle face, Kandy City center, and Mount Lavinia. After the impact of COVID-19 Jezza fashion turned into a highly online-based business and they were producing their products successfully around the world.

From above stories of success can identify some situational factors to make entrepreneurs,

Education- even though Jezza fashion had 20 years of history, the awakening of jezza was happens within these few years. Jezza Ismail completed her education in fashion marketing, and she developed their company as a private limited company. Now Jezza fashion plays a major role in textile industry. **01**

Social and environmental- founder of Penelope Mrs. Amra, after her motherhood she was affected by postpartum depression. She used her hobby to overcome her depression. And it became Penelope which is a successful eco-friendly doll manufacturing enterprise. **02**

Finance and family background – opening a new business at a young age was quite difficult but Rishma Rizvi started her business at age of 15 because her financial background includes family support was there for her to start her own business **03**

YES, FACTORS MATTER,
BUT, APART FROM THIS,

WE CAN LIST DOWN SOME TRAITS WHICH LEAD THEM TO STAY IN THE MARKET FOR LONG.

SELF-RELEVANT AND SELF-CONFIDENCE

Believing in own talent is the most important for an entrepreneur. A good entrepreneur should face more traits to achieve their goals. Once they failed to manage their downfall, they will not be able to achieve their extreme goals. Positive thought and self-confidence are good enough to change the world. A person like Elon Musk is a splendid example of self-confidence.

> Failure is an option here. If things are not failing, you are not innovating
>
> - Elon musk -

COMMITMENT

When a person needs to increase their potential, he/she should be committed to the work. Commitment is the secret key to entrepreneurship. Colonel Harland Sanders, founder of KFC succeeded at the age of 65. He quit school in grade 6. His commitment throughout his journey made his life to achieve his extreme goal.

> I have only had two rules.do all you can and do it the best you can. It's the only way you ever get that feeling of accomplishing something
>
> - Colonel Harland -

WILLING TO TAKE RISKS

The higher the risk gives the higher the return. An entrepreneur can't go for the targets without taking risks. The founder of Microsoft, Bill Gates decided to leave left Harvard after two years to build Microsoft. Today he is one of the richest people in the world.

> To win big, you sometimes have to take a big risk"
>
> - Bill gates -

CREATIVITY

Creativity allows people to view and solve problems more openly and with innovation. Creativity opens the mind. When eric yuan created the zoom platform there was no pandemic,but his creative thinking towards the future made him successful today.

> Major simulation to creative thinking
> is the focused question
>
> - Brian Tracy -

Traits are important for entrepreneurs to develop their self but there are some significant skills that entrepreneurs should have to learn and improve for the long-run stability of their achievement.

Skills required
- Basic management skills
- interpersonal skills
- leadership skills
- communication skills

Traits own by people's personalities; Traits can depend from person to person but without skills, entrepreneurs won't be able to succeed in their ultimate goals. According to the research of the Asian development bank, most women entrepreneurs in Sri Lanka don't have the skills required. Still, there are people from rural areas that have ancient talents which we can market over the world to overcome from current high inflation pressure.

The major reasons for the current high inflation pressure can be listed down as below,

1. high money supply
2. dollar crisis

As an individual or a group, no one can't implement a money supply except the central bank of Sri Lanka. The central bank of Sri Lanka already implements plans to control the high money supply.

And for the dollar crisis in Sri Lanka, With the current situation, SMEs are one of the best solutions which can be practically implemented in our country. Even with a small capital, SMEs can be started. SMEs lead to an increase in GDP growth, and an increase in GDP leads to economic growth.

As the author mentioned above, only 34% of women are economically active. As a community, if we can increase that percentage upto 65%, Within few years as a r country we can go for an export-oriented economy by increasing national production.

Suggestion for increasing involvement of women in SMEs

- Facilitating the financial needs of women entrepreneurs
- Educating on basic management skills
- Conducting training programs on risk management
- Increasing the knowledge of exporting
- Increasing the knowledge of tax structure
- Conducting awareness programs about opportunities
- Increasing basic technical skills

Entrepreneurs boost economic growth by introducing innovative technological products and services Which is much needed for our country to increase GDP. The increasing of women entrepreneurs creates more challenges that are important for innovation and sustainable future growth. The creation of new jobs created by women also helps our country to reduce the gender gap in the workforce. Big things often have a small beginning. No country can develop when half of the country left. Developing is not all about the development of the country it's about the development of every individual.

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SUPPLY CHAIN AND IT'S ROLE IN REVIVING SRI LANKA

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Shehara De Silva serves as the Managing Director of the McLarens Group of Companies. She successfully positioned the McLaren's group as a leading conglomerate with interests in Shipping, Marine Logistics at the heart of its business, with expansions into Petroleum & Energy, Manufacturing & Distribution, Property, Strategic Investments and Leisure. She has been instrumental in restructuring the Group with modern management practices while maintaining the Group's unique culture, heritage and values which are being carried forward from the founders.

Shehara is backed by an extensive formal education in cross-curricular areas of business and holds a Master's degree in Shipping, Trade and Finance (Honors) from City University, CASS Business School inLondon, and a bachelor's degree in Economics (Honors) from the London School of Economics (LSE).In 2017, she became the first female Office-Bearer in the 50-year history of the Ceylon Association of Shipping Agents (CASA). Breaking a well-known industry norm, creating history in the shipping industry in Sri Lanka, Shehara was appointed as the first chairperson of CASA in 2021 and is currently holding this position for the second consecutive year. With her continued interest in Shipping and her support towards women's empowerment, Shehara became the Founding President of the Women's International Shipping and Trading Association in Sri Lanka (WISTA), where she was instrumental in setting up the association in Sri Lanka in 2014 and gathering industry support.

Shehara was appointed to the Board of Directors of Ceylon Shipping Corporation Ltd in October 2020 and she also served as a Director of National Savings Bank in 2018. She serves as a member of the National Agenda Committee on Transport and Logistics of the Ceylon Chamber of Commerce and Diversity Committee of The International Chamber of Shipping. She is the recipient of many awards and accolades in recognition of her outstanding contribution to the industry and Shehara is passionate about community outreach and has played a key role in 'Friends of Prisoners' Children' - a program that uplifts the lives of children of inmates at the Welikada Prison. She is also a Brand Ambassador of Room to Read (R2R) Sri Lanka. She is the First Female Formula Racing Driver in Sri Lanka and actively participates in Motor Racing Events. She has won many accolades in several events, ranging from Hill climbs to circuit racing, gravel track, racing rallies and Go Karting.

AMONGST THE MANY ADVERSITIES THIS ECONOMIC CRISIS HAS BROUGHT ABOUT, WE COMMONLY HEAR ABOUT SUPPLY CHAIN DISRUPTIONS. AT THE SAME TIME, PROPER SUPPLY CHAIN MANAGEMENT IS ALSO AN AVENUE TO RECOVERING SRI LANKA FROM THIS CRISIS. SO, WHAT IS SUPPLY CHAIN? GIVE US AN UNDERSTANDING OF THE SCOPE OF ITS DEFINITION.

Supply chain is a very broad concept or process, but simply, it's the transferring of the raw materials from raw material suppliers to manufacturers, and then to retailers, and from retailers to middlemen, and then to the final consumer. So, it's the process of getting goods from their raw form into finished goods state, and into the shelves of stores, and into the homes of customers. There are so many parties involved in this whole chain. There are logistics providers who play an integral role in facilitating the first supply chain and there are government organizations, consumers, manufacturers, suppliers and several other parties that involve in the concept of a supply chain. Earlier it was a linear concept, but nowadays it's a more spherical or a network concept where you have Just in Time supply, electronic data processing, big data, and so many complexities and the production is global. Hence, according to how I see it, because of all the changes in the global economy, the supply chain has now become more of a network rather than a linear simple transfer.

There are so many formal definitions, but supply chain now is a way of doing business as every business needs its supply chain. At present, we have new trends in the supply chain, for example, 3PL and 4PL, whereas in the traditional model lots of companies used to control their supply chain within their company where they would have their own sourcing, warehousing and distribution. Now it has become a specialist subject on its own, that most companies would outsource their supply chain to another company that has proficiency in it, and that company outsourcing the supply chain could focus on their core business function simultaneously and leave the supply chain to companies who can optimize it for them.

HOW IMPORTANT IS THE SUPPLY CHAIN AS A REVENUE GENERATOR FOR SRI LANKA'S ECONOMY?

Considering the current state of the Sri Lankan economy, we are in a currency and political crisis with a shortage of US Dollars and government revenue, etc. What we need to do is increase our capital inflows, increase our foreign exchange and restructure our government income and expenditure, rationalize state-owned businesses, increase taxes and increase our GDP. This is our country's position as of now. As you all know, we always talk about Sri Lanka's strategic position. Being situated in the middle of the East-West Sea route gives us a strategic advantage of geographical positioning and this is directly linked to supply chain because of how global this concept has become. Sri Lanka's positioned in a way that we can provide several services to all companies who are shipping via these routes, and to shipping lines, to ships, to logistics companies, to cargo consolidators.

Thus, there's a whole host of services that Sri Lankan companies can supply and thereby earn foreign exchange which can help the Sri Lankan economy and contribute to the GDP and help the country during these times. So, we need to position ourselves as a Maritime hub, as a logistics hub where we can offer these services which will really help recover Sri Lanka from this crisis.

WHAT DO YOU THINK ARE THE WEAKNESSES SEEN IN HOW SRI LANKA'S SUPPLY CHAINS ARE MANAGED AS AN ECONOMY?

If we look at the global economy, every country has its weaknesses, even China had its ports congested, and in one case of Covid they closed the entire Shanghai, and the USA had ships waiting for one month to get a berth at the port. So, during the time of the covid pandemic, the disruptions brought about were global, lot of ports faced several issues, whereas the port of Colombo continued to work right throughout our difficult period and we provided continuous services to ships at the port of Colombo. Having said that, we really need to think beyond what we have been doing. Port of Colombo is largely a transshipment hub, 85% of the cargo that is brought into the port of Colombo is transshipment, not imports-exports, and transshipment is a huge revenue generator for the economy. However, we have the potential to double this volume. So, I would say, the first thing is increasing capacity as I believe Sri Lanka has a really big potential to reach in terms of the Maritime sector.

Accordingly, as far as the weaknesses are concerned, the first thing I would say is "the capacity". We really need to increase our port handling capacity, for example, at the moment we are going on 7 or 8 million TEUs, but definitely if we have the capacity, shipping lines would be willing to even double this capacity and double the volume that they are handling via Sri Lanka. So, we must look at building state-of-the-art deep-draft terminals along with cranes, the latest equipment and software, and the communication systems to run those as there's no point in having the infrastructure if you can't manage them efficiently, and thereby try to achieve the productivity that matches the private terminals and terminals of other countries. Further, we need to focus on the ease of doing business. Sri Lanka doesn't face very well in ease of doing business. We have a host of procedures and red tape for any cargo that moves right through, which is normal in any country, but here we have a largely manual process where 22 documents are handed over in manual format for every shipment that is processed at the port of Colombo still, even though a large part of it is digital. Thus, digitalization will really enable us to repower supply chain capabilities much faster than what we are doing at the moment because we are held back due to the lack of a proper port community system. A port community system refers to an overall software program where all the stakeholders in the process, such as the ports, the customers, the customs, the shipping agents, the freight forwarders, the immigration, the navy and all these parties who are involved in running the port in the cargo clearance process can login and interchange data electronically.

This will make the process faster, more efficient and save costs, fuel, paper and printing and many other resources. So, we have a long way to go to reach that point, but this is a clear need of the hour, and so along with the digitalization there will be less bureaucracy, there'll be less red tape, procedures will be streamlined and I think that will greatly increase the ease of doing business and help to reap the full benefit of supply chain.

WHEN STRUCK BY A SHORTAGE OF FOREIGN EXCHANGE, WAS IMPORT RESTRICTION AND IMPORT SUBSTITUTI--ON THE RIGHT RESPONSE TO MANAGE SRI LANKA'S SUPPLY CHAIN? OR SHOULD THERE HAVE BEEN A BETTER WAY TO TACKLE THE SITUATION?

First, we have to see why we came into this situation. We came into this foreign exchange shortage because of years of bad policy, years of subsidizing things like energy, electricity, fuel and fertilizer and government not increasing revenue over expenditure. We subsidized these essential commodities and our consumers never felt the real cost of consuming those commodities. We consumed those at a lower cost and not at their right price. Also, we should have gone for funding sources like IMF earlier, rather than waiting till the last moment and then defaulting on our debts. So, there were knock-on effects that really destabilized our economy, but as the solution, there is no one particular solution, and to get out of this crisis we need to attack every single area. Like I mentioned, first we need to increase the export revenue and cut back on imports as it is the fastest way to put a band aid on this situation, but it is not the long-term solution, because even the exports need imports and it's only a quick remedy to help us cut out luxury goods or goods that are determined to be not that essential. However, the definition of what's essential and what's not is a gray area. There are so many small businesses that survive on imports and jobs that are dependent on imports. So, you can't forever restrict imports, but I think we had no choice as a country but to do that at that time, but definitely in the long term the solution is, yes there should be certain import substitution, there should be local production, local production has to improve, but exports have to improve as well and investments into production facilities have to improve and we need more competition in these key areas like energy and fuel. For example, fuel and petroleum stations have been monopolized by the Ceylon petroleum corporation as well as IOC, but we need more players. There needs to be certain liberalization in industries like the fuel industry and we need state-owned enterprises to run more profitably because most of the state-owned enterprises run as loss-making entities. These state-owned enterprises currently have overemployment and are not efficient. The entire government machinery needs to start becoming more economical and we need to look at disposing of whatever is not. So, there are certain assets that need to be privatized or bring in public-private participation or bring in foreign investors. Accordingly, there's a whole heap of remedies or way out of this, but it's not one thing. So, I believe in the long run we need to trade, we need our imports back, but we can't be dependent on them and we can't subsidize them the way we have done in the past, and we need to be more efficient in our production process.

AT PRESENT, SHIPPING LINES EXPECT THE EXPORTERS TO MAKE THEIR PAYMENTS IN DOLLARS? WHAT IMPLICATIONS WILL THIS HAVE ON THE ECONOMY IF THIS CONTINUES AS A PRACTICE?

Yes, this was a necessary step that was taken because, anyway the exporters are earning in dollars, so all these years even though they earned dollars, they never paid the dollars to the shipping lines, they paid Sri Lankan rupees, and the banking system converted those rupees to dollars and then we remitted them to the shipping lines. However, what happened is that when the banking system ran out of dollars, we had to ask the exporters to pay in USD and then those USD were remitted to the shipping lines. Here, the first impact was probably inflation, the inflationary effect on the local economy, and it's creating a further shortage of USD for imports. Basically, those dollars otherwise would have been used for imports if they had remained in the economy. Even the shipping lines now must pay the port in USD though previously we were allowed to pay in rupees, and we are really in a tight situation at the moment. The Sri Lankan rupee has lost its value and the international community has lost its confidence in the rupee, so until that is regained, this trend will probably continue for the next few years until our banking system is becoming robust again and is able to provide enough dollar liquidity for imports and for trading. So, until such time, this would probably be the trend.

WHAT REFORMS DO YOU SUGGEST SRI LANKA MUST HAVE TO MAINTAIN A ROBUST SUPPLY CHAIN THAT CAN HELP REVIVE SRI LANKA?

As I previously mentioned, digitalization is key. We need to change our laws to accept digital signatures and so on. We need to look at acts like the Customs Ordinance and other acts and laws and see that they are updated and reformed in order to incorporate modern supply chain practices, modern processes and document interfaces. For example, the Customs Ordinance still talks about boarding vessels to give clearance before the vessels sale off. In other countries they do not board every vessel. Doing this as a practice delays vessels and does not help the efficiency of the port. So, we need to start getting documents electronically, processing approvals electronically, and have the necessary legal reforms in order to facilitate these digital communications and transactions, and this I suggest should be the first step.

The second step as I previously stated would be capacity building and improving the ease of doing business. Moreover, one of the key areas that Sri Lanka can gain from providing ancillary services to ships, not only transshipment services, but any ship that comes here, we can provide them with bunkers, with crew changes, with water, with marine lubricants, and we change their crew here, do repairs, give spare parts and provide a lot of other services that these ships require as a part of marine logistics which is a part of facilitating supply chain. Nevertheless, there are a lot of obstacles to doing these businesses. There are for example, certain taxes. When taxes are levied in a way that you can't do businesses profitably, then it has to be looked at maybe how these taxes should be restructured, and they should be levied on bottom line rather than on top line.

These taxes should not be levied in a way that restricts business or cause businesses to be uncompetitive internationally with other ports. There are certain tariffs that we have to pay government authorities that need to be looked at, that are not in line with regional ports. So, the financial landscape needs to be looked at in terms of reform, in terms of becoming competitive. Further, processes need to be looked at. There are several government agencies that get involved with the shipping process, and some of them are coming from wartime and there are certain practices that we don't need now with the improvement of the security situation, or some of them are coming from covid time. Again, we need to really innovate and be more forward-thinking in terms of processes if we really want to position ourselves as a maritime hub.

GIVEN THAT THE CONCEPT OF SUPPLY CHAIN HAS EVOLVED TO BE A NETWORK CONCEPT CONSISTING OF MANY PLAYERS, ARE THERE ANY SPECIFIC AREAS WE NEED TO PRIORITIZE ON TO TURN THINGSAROUND FOR THE SRI LANKAN ECONOMY AND ENSURE -

-SUSTAINABLE DEVELOPMENT IN THE COUNTRY RATHER THAN IMPLEMENTING JUST SHORT-TERM SOLUTIONS?

Indeed, the Government needs to have a clear policy when it comes to maritime logistics, and that will basically be the enabler of supply chain. So, we need a clear path, a road map rather as to where we want to be as a country in the next few years. Of course, we cannot do everything, there are limited opportunities and hence we might have to prioritize or choose. We might need to go for public-private partnerships in some cases, we might have to keep some for local entrepreneurs, and we might need to get foreign investors for certain other cases. So, these matters need to be looked at strategically, they need to be planned out and we need a proper maritime and logistics policy which is going to be implemented no matter which government comes or whoever changes, but the policyremains. This will ensure continuity, and then there's long-term thinking and the private business community will also find stability.

This will minimize the uncertainties and when there is better predictability and assurance, these businesses can talk to foreign investors and bring them with confidence because then they know that these policies won't change overnight. Otherwise, once we invest in a business and the matters change due to the lack of stability in terms of policy, it's difficult to recover from that. So, policy stability is something the government essentially needs to look at, and thereafter, theimplementation. There's no point in having a policy if it's not implemented.

There's no point in having a policy if it's not implemented. Shipping or logistics is like a community, we have so many partners, everybody needs to get together and play their role in positioning Sri Lanka. We have a lot of opportunities, we have a smart educated workforce, we have seafarers that we can promote as a seafaring nation. We can provide seafarers to internationally going vessels and take simple measures like promoting the Sri Lankan flag for the ships to register here. Even in arbitration, our entire legal system needs to facilitate international ship arrests and have an admiralty coach that's dedicated for these matters. We can even promote a lot of shore-based services for ships and ship owners, but first of all, we need to have that plan in place and educate and bring everybody on the same thinking.

TO CONCLUDE THE INTERVIEW, SHE ALSO ADDED THE FOLLOWING...

We need a lot of young people coming into the logistics sector in Sri Lanka. This sector needs qualified, strong young people who will come in and really change the face of how it's been done because it's a very traditional sector, and that promotion needs to be done in university level I believe. The curriculum of logistics degrees needs to be looked at more in line with the international curriculum of what a logistics or a supply chain or a maritime related qualification would include, so that we have a lot more younger people who will find this sector attractive and join this sector and help us to develop the sector and the country.

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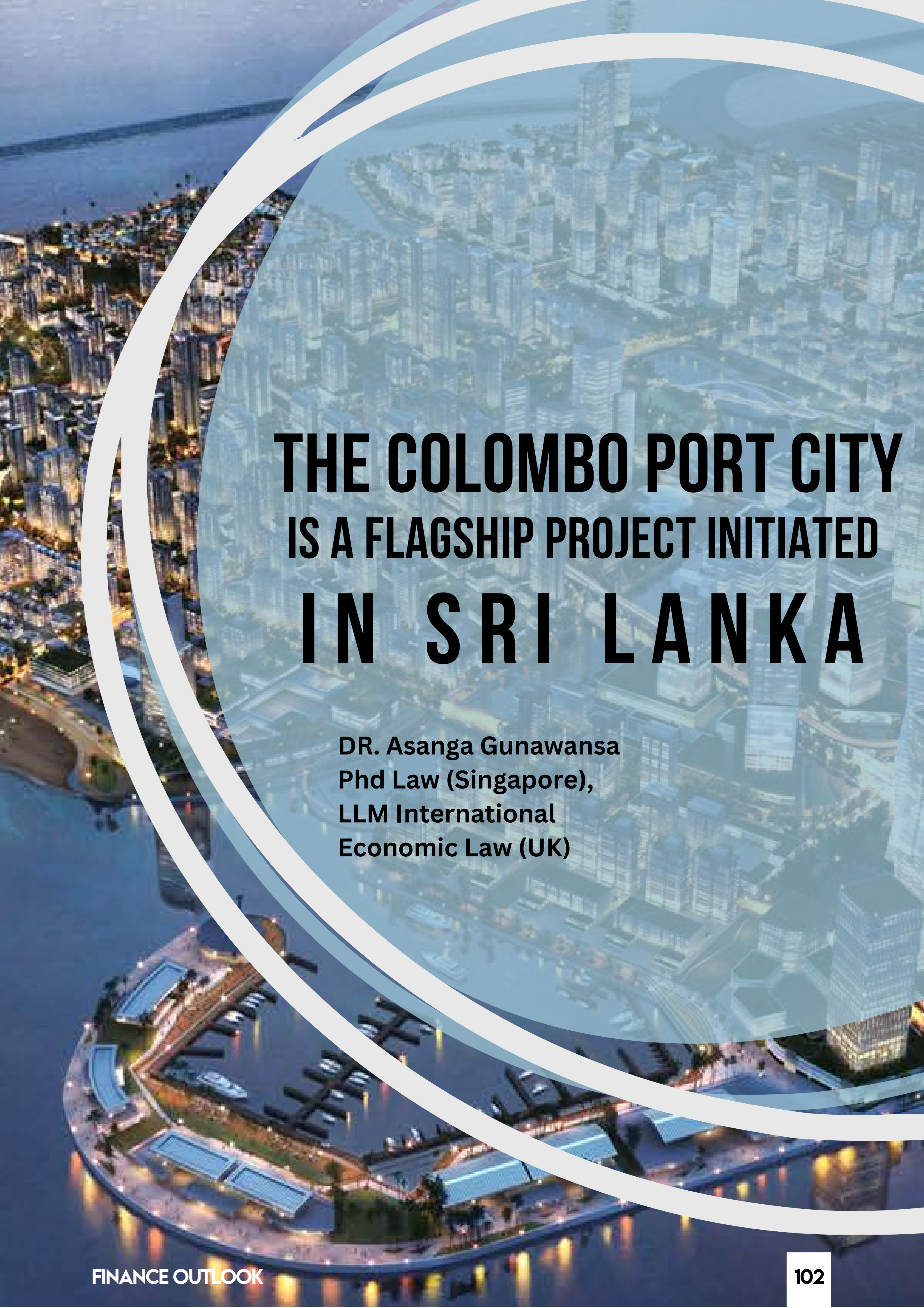

THE COLOMBO PORT CITY IS A FLAGSHIP PROJECT INITIATED IN SRI LANKA

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Dr. Asanga Gunawansa holds a Ph.D. in law from the National University of Singapore and a LL.M in International Economic Law from the University of Warwick, England. He is an Attorney-at-Law of the Supreme Court of Sri Lanka and has over 28 years of experience as a lawyer. He is the lead counsel at the Colombo law Alliance, a Law Chamber which specializes in Commercial Law, Legal Aspects of Project Financing, Foreign Investment Law, Construction Law, and Arbitration.

Dr. Gunawansa is an Adjunct Professor of the University of Moratuwa and a Member of the Board of Studies of the Incorporated Council of Legal Educationof Sri Lanka. He is also an Advisor to the Green Climate Fund, South Korea; a Member of the Executive Committee of the Asia Pacific Centre for Environmental Law of the National University of Singapore, and a Senior Research Associate of the Institute of Water Policy, Lee Kuan Yew School of Public Policy of the National University of Singapore.

Dr. Gunawansa is also an also an Arbitrator attached to several International Arbitration Institutions including the Asian International Arbitration Centre, Malaysia, Thailand Arbitration Centre, SAARC Arbitration Council and Shenzhen Court of International Arbitration China. He is a member of the Advisory Board of the Gujarat International Maritime Arbitration Centre.

During the period 1993 to 2000, he was a State Counsel attached to the Attorney General's Department. In the past, Dr. Gunawansa had worked for the United Nations Compensation Commission in Geneva, and the United Nations Relief and Works Agency in the Middle East, as a Legal Counsel. During the period 2007 – 2012, he taught construction law, environmental law and project financing at the National University of Singapore. He has also published several books including the Case Book Series on Asia Pacific Construction Law published by LexisNexis.

THE COLOMBO PORT CITY IS A FLAGSHIP PROJECT INITIATED IN SRI LANKA. CAN WE GET A BRIEF INSIGHT INTO THE OVERALL PROJECT, ITS HISTORY, AND THE WAY FORWARD?

The Colombo Port City development project is perhaps the single largest Foreign direct investment project in Sri Lanka, to date. Over 1.5 Billion dollars have been invested in the project as of date, and that has been invested by the Project Company, CHEC Port City Colombo (Pvt) Ltd, which has entered into an agreement with the Government of Sri Lanka.

Prior to commencement of the Colombo Port City Project, the reclamation of land and the development of a new commercial hub was initially considered by the Government of Sri Lanka in the mid-1990s; however, that project did not go through due to changes in political regimes, at the time.

In or around 2010, once again, the Government started reconsidering this project. During this time, an unsolicited proposal was submitted by a Chinese state-owned company at a time when there were a lot of government-to-government development projects. Even though it was an unsolicited proposal, a cabinet-appointed negotiation committee was required to look into the viability of the project and to negotiate with the investor. This process took about 18 - 24 months before pen was put to paper and the Agreements were signed.

Many people are unaware of this, and in fact, there were two comprehensive feasibility studies done. In both studies, over 10 professors from different local universities were involved, and after they had given the green light, the Government of Sri Lanka decided to go ahead with the project.There were also some wrong perceptions right from the beginning about the project, and one such misconception was that the land would be given on a freehold basis to the Project Company and that there would be various military establishments set up by the Government of China, which would undermine the sovereignty of Sri Lanka. However, these are mostly ill-conceived concerns.

At the end of the day, any reclaimed land will be part and parcel of the state land according to the applicable laws of Sri Lanka. In terms of the Land Development Ordinance only person who has the power to make a decision in Sri Lanka to reclaim land from the seashore, that is the President of the country. Most importantly, when it comes to the Port City, there is not an inch of land given to the Chinese investor on a freehold basis. The 269 hectares of land that has been reclaimed is entirely state land. However, because the Chinese investor has invested approximately 1.4 Billion US dollars in doing the reclamation work and recognizing the fact that there should be a way for the investor to recover its investment and earn a reasonable profit from the investment, as generally happens in any public-private partnership, the investor has been given a portion of the reclaimed land on leasehold basis.

When it comes to attracting foreign investors, there is a complete misconception that there are investors lining up to come and invest in Sri Lanka. If we are to consider the member states of the UN, out of approximately 193 countries, nearly 140 - 150 countries are considered to be "developing" or "least-developed". Moreover, if you take the South Asian Region, every country in South Asia is considered developing, if not least developed. Then when you look at the market size, Sri Lanka has a market of around 22 million people, which is a relatively smaller market. If we are to compare Sri Lanka with Bangladesh, Bangladesh has over 160 million people and currently a much stronger economy than Sri Lanka. Furthermore, countries like Nepal and especially India which is the second largest market in the world, are all looking for foreign investments. In this context, Sri Lanka is required to compete with other countries for the attention of investors. When concessions are offered to investors by the other countries, we too have to give similar concessions or a little more in order to attract investors. Especially in the current scenario where Sri Lanka is facing a major economic crisis, we need more investors to come on board.

Concerning the Port City Project, some people question the justification for granting a long term (99 year) lease to the investor over a portion of the reclaimed land. We have to consider this issue from the perspective of the investor too. If the reclaimed land is not developed by third-party investors, then the land owner (Government of Sri Lanka) or the Project Company which has leasehold rights over a portion of the reclaimed land, would not benefit.

No investor will come in and make capital investments unless they are making a substantial profit; that is just howthe commercial world works. Moreover, in a project like the Colombo Port City Project, there will have to be vertical developments to add value to the land. By vertical developments,

I mean there will have to be hotels, conference facilities, international schools and universities, hospitals, theme parks, and various other developments that will incentivize investors to come and invest. When fully developed the Colombo Port City is expected to have over 5.6 million square meters of built space. Therefore, the type of development projects Colombo Port City would attract would be long-term investment projects. It is in considering all this during the process of negotiation, that the government agreed to give the Project Company a 99-year lease on approximately 43% of the reclaimed land.

It is important to understand that the remaining 57% of the land, is owned by the Government and that portion of the land is not subjected to any leasehold rights in favour of the Project Company which invested to reclaim the land. As the investment was made by the Project Company for the reclamation, the government has agreed that when it comes to the development of the land, The first priority will be given to the Project Company. The Project Company and the government have agreed on a mechanism by which after the Project Company develops or sells the leasehold rights of several plots, the government gets the right to sell its own plots. It is also important to note that as the entire land is owned by the government, the rights of the Government of Sri Lanka as the land owner are not compromised.

We also need to consider the indirect benefits from the Project. For example, if a land plot is given to a Singaporean investor to put up a hotel, the investor will pay the Project Company to purchase the leasehold rights from the Project Company.

Then, the investor will have to come to Sri Lanka and invest in the construction of the hotel. This will create employment opportunities and also contribute to the local economy due to award of construction contracts, supply contracts etc. and all such support services could come from Sri Lanka. These will create considerable benefits for the country.

WHEN WE THINK ABOUT SRI LANKA AND THE PORT CITY, WE TALK A LOT ABOUT THE GEOGRAPHICAL POSITION OF SRI LANKA. FOR EXAMPLE, WE ARE RIGHT IN THE MIDDLE OF TWO GLOBAL FINANCIAL HUBS, DUBAI AND SINGAPORE. SO HOW CAN WE UTILIZE THIS ADVANTAGE TO ATTRACT INVESTMENTS TO THE COUNTRY?

As I mentioned before, Sri Lanka as a potential investment destination has significant competition globally. Also, Sri Lanka has a very vibrant democratic system of governance. It can be a good thing and a bad thing, depending on how you choose to look at it. For example, when it comes to development projects, as you know, decisions taken by the r government in power can be opposed to by the opposition, and this can pose various challenges. There are also public interest groups and citizens who can question the decision made by the government. Even in the context of the Port City Project, in 2014, the project was suspended with a new regime coming into power. It was only after realizing the importance of the project, did it kick-start back in 2016. The Project was also challenged in the Court of Appeal and the Supreme Court by two public interest groups. Things like this could lead to investors not considering Sri Lanka as a viable investment destination.

So as you mentioned, we are placed between two global financial hubs Dubai and Singapore. In Sri Lanka too, the government is actually trying to model and promote the Port City as a financial center. However, compared to comparator jurisdictions such as Dubai and Singapore for the purpose of setting up a financial hub, Sri Lanka has many obstacles. Dubai has an authoritarian government that is supported by the people. It is somewhat the same in Singapore as well, and in these countries, development projects initiated by the government will go through without any obstruction or objection. As an example, I could point out that in Sri Lanka we have a National Environmental Act which requires development projects to satisfy an Environmental Impact Assessment (EIA). Whereas, in Singapore if the project is initiated by the government no EIAs are required, while this does not mean that they have not done an assessment, it is merely that by law no one is permitted to go and question the government whether an EIA was done or not.

In Sri Lanka, there can be public interest litigation and people can go and challenge the government. In truth, the issue is not regarding the ability to challenge or not but whether a project can be implemented with zero corruption, with transparency and with proper thinking. If the projects are implemented properly, then the people will not see the need to challenge decisions. Even if they are challenged, the courts can consider the challenge and if there is no merit in the challenge, dismiss the same.

Unfortunately, due to corruption and issues relating to enforcement of contracts etc., as is clearly reflected in the World Bank Ease of Doing Business Index, Sri Lanka is not ranked very high. In this context if we try to emulate jurisdictions like Dubai and Singapore, there are vast differences. For example, Sri Lanka's ranking on 'the ease of doing business' is not high. As an investor if you could go to Dubai or Singapore or Sri Lanka, which one would you pick? You will not be coming as a tourist to see wildlife and the beaches, but you will come to Sri Lanka as an investor looking to make money.

So, as an investment destination, what do we have to offer compared to other countries? That is the question which needs careful consideration. Being rich with natural resources alone is not sufficient. Having a sufficient labour force is also not sufficient. We need favourable laws and an investment environment to benefit from foreign investment.

So, the solutions have to come in the form of having the right laws and regulations and having a great framework to establish ease of doing business. As an example, in Singapore, you can incorporate a company within 48 hours, and you can get the necessary approvals within a week, and the project will be underway. However, in Sri Lanka, how many months or even years would it take to channel through all the red tape to get the required approvals for a project? These kinds of obstacles, do not send a proper signal to investors to look at Sri Lanka as a favored investment destination.

WE KNOW THAT SRI LANKA IS IN AN ECONOMIC CRISIS, AND IN FACT, THE PORT CITY WAS VERY CLOSE TO WHERE THE 'ARAGALAYA' WAS TAKING PLACE. SO, WHAT TYPE OF IMPACT WOULD THE FINANCIAL CRISIS AND THE WHOLE SCENARIO HAVE ON THE END RESULT OF THE PORT CITY AND INVESTORS COMING IN HERE, BRINGING IN FOREIGN DIRECT INVESTMENTS INTO SRI LANKA AND SPECIFICALLY TO THE PORT CITY?

There are differentways of lookingat it. We could say that the 'Aragalaya' was happening in front of all the top hotels in Sri Lanka and the tourists might have gotten scared because of it. If you are an investor considering a serious investment, then you would certainly not make the decision to invest in Sri Lanka because of the bad governance, and you know the various problems that we have had.

That being said, perhaps 'Aragalaya' might push things toward the correct direction. I see the 'Aragalaya' as something that gives a positive signalto the rest of the world. So, one of the demands of the 'Aragalaya' was to bring new faces, you know, bringing intellectuals to parliament. So the question is, has that happened? If that had happened, then that might help boost investor confidence. However, if despite the Aragalaya, if the same individuals rejected by the protestors are holding ministerial portfolios, then the investors might not be convinced that there has been any effective and positive change in Sri Lanka. Yes, a system of government is required deal with the current crisis, to discuss and negotiate with the IMF, enter into bilateral agreements with countries etc. However, if in a democratic country, if such initiatives are not taken by democratically elected persons who have the popular support of the citizens, then I do not think we are creating a satisfactory investment friendly environment in Sri Lanka.

ACCORDING TO SOME FOREIGN INVESTORS, THE PORT CITY HAS BEEN SAID TO HAVE TOO MANY RULES AND REGULATIONS. AND SOME OF THESE REGULATIONS ARE NECESSARY TO HAVE A SAFE ENVIRONMENT FOR THE INVESTORS, BUT HOW CAN WE ENSURE THAT IT'S EASY FOR THEM TO INVEST IN THIS ENVIRONMENT? CAN WE IMPROVE THE OVERALL RATE OF OUR EASE OF DOING BUSINESS INDEX AND SO ON THROUGH THIS PORT CITY FRAMEWORK AND THE ACT AND SO ON?

I would disagree with the view that the Port City Act has stringent regulations. The whole purpose of introducing the Port City Act was to give something more than what is offered by our existing laws. If you compare it to the BOI Act and/or the Strategic Development Projects Act, the Port City Act has gone beyond those and created various concessions so that the popetntial investors are motivated to invest in the Port City.

That being said, perhaps 'Aragalaya' might push things toward the correct direction. I see the 'Aragalaya' as something that gives a positive signalto the rest of the world. So, one of the demands of the 'Aragalaya' was to bring new faces, you know, bringing intellectuals to parliament. So the question is, has that happened? If that had happened, then that might help boost investor confidence. However, if despite the Aragalaya, if the same individuals rejected by the protestors are holding ministerial portfolios,

I see the Port City Act as the mother act, which has been drafted and provides a Foundation. So, we need to build on it. At the moment, the necessary support regulations are being drafted. The government needs to consider who should be in the Port City Commission and who is familiar with developing international financial cities. If we don't have local talent, we might have to bring the talent from overseas and get them to help, and that's not a bad thing. You know, if you look at countries like Singapore and Dubai, they were also built with the advice of foreign talent. In fact, I do not think we have any local experts, legal, financial etc. who have expertise in developing international financial cities.

So even if there are Sri Lankans who have studied in foreign countries and learned subjects relating to development of financial cities, while that would give them some knowledge on the subject, that will not make them experts. Experts are those who have done it before and gained experience. In my view, we need the assistance of experts to make the Colombo Port City successful as an international financial hub.

We recently experienced the Easter Sunday attack and lost more than one and a half years due to COVID. Then there was the Aragalaya. There have been changes at the head of the Government. All these are setbacks. However, for the project to work, the government has to be the champion behind the Port City. The Government has to make sure that necessary laws and regulations are passed with the assistance of experts.

IT HAS BEEN DENOTED THAT FOR THE PORT CITY, THE INVESTOR HAS TO BRING IN THE MONEY FROM ANOTHER COUNTRY AND NOT INVEST FROM WITHIN THE SRI LANKAN ECONOMY. COULD YOU BRIEFLY ELABORATE ON THIS?

If they're going to attract foreign investment, we are looking at a fresh inflow of money from elsewhere. We don't want foreign investors to come and borrow money from Sri Lanka and try to build it here because, as you know, our own people can do that. So, ideally, most of the money to be invested in the Port City should come from overseas. At the moment, we have a dollar crunch. When you're developing projects of this nature, a percentage of the construction cost will have to be paid in dollars because you might have to get the equipment, machinery, sound construction materials, all of which currently comes from overseas. So, we need that inflow of money, which is why I don't think that the requirement under the Port City Act that the investment has to be raised overseas is not unfavorable.

UNDER THE PORT CITY ACT, THERE ARE SOME TAX EXEMPTIONS FOR INVESTORS. SO WITH THESE EXEMPTIONS, HOW WOULD THE TOTAL IMPACT BE ON THE REVENUE OF THE COUNTRY AND THE GOVERNMENT'S TAX INCOME, AS WE ARE IN AN ECONOMICALLY UNSTABLE POSITION? SO, IN THAT CHARTER, WILL THESE TAX EXEMPTIONS NEGATIVELY AFFECT THE ECONOMY?

I can give a simple explanation for that. If you don't provide any tax exemptions, the chances of anyone coming to invest will be remote. If the exemptions are given and investors come, there will be employment creation. Further, the investments would require local materials and services. Moreover, once the projects are completed, there will be foreigners coming to patronize those facilities. All of this will improve the revenue of the country.

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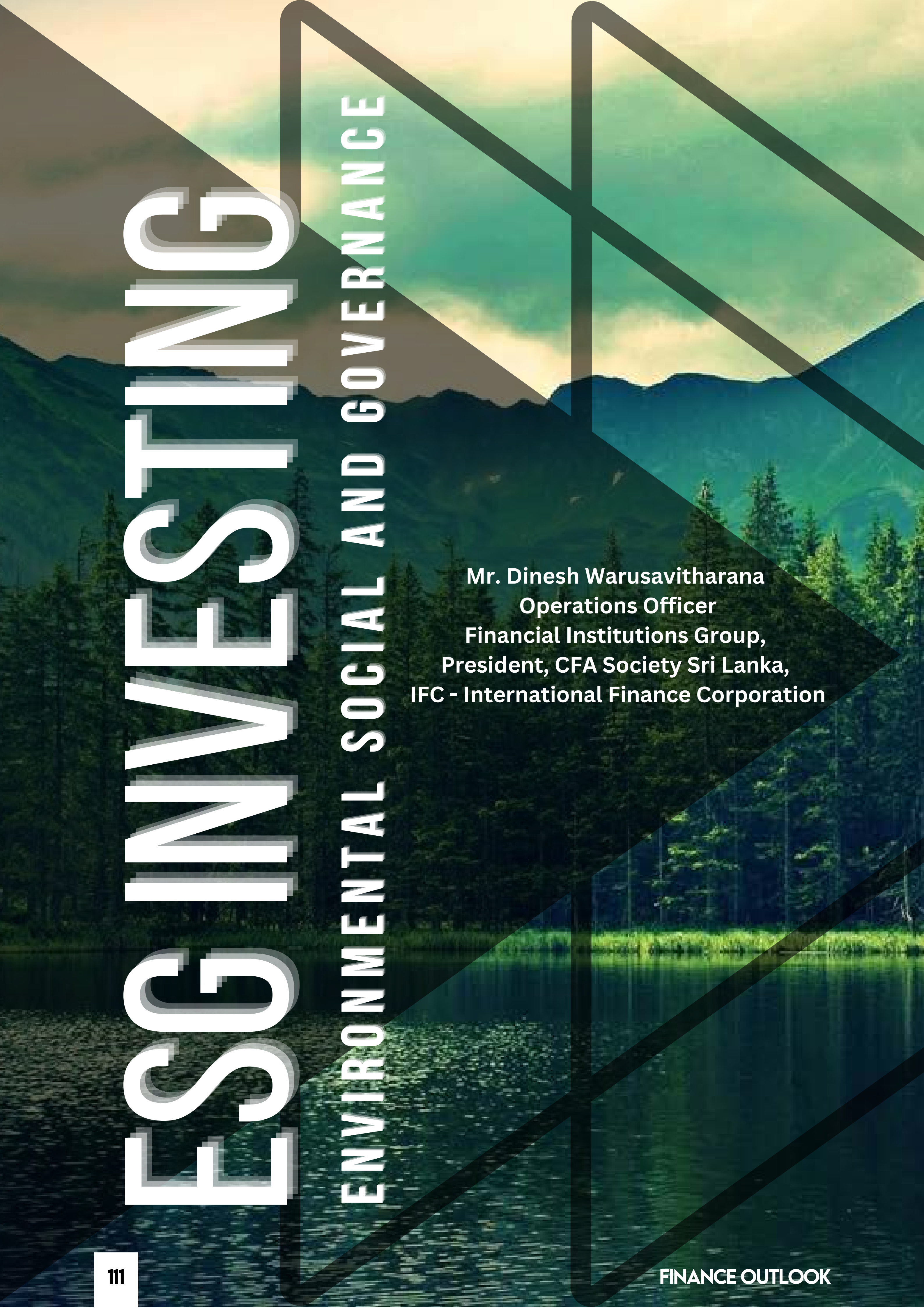

ESG INVESTING

ENVIRONMENTAL SOCIAL AND GOVERNANCE

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Dinesh has been the President of CFA Society Sri Lanka since 2020, prior to being appointed as the President, he served as the Vice President, Secretary & Treasurer of the society.

Dinesh is a finance professional with over 20 years of experience in the financial sector in Sri Lanka and Australia. Dinesh has been with the International Finance Corporation, a member of the World Bank Group for the last 9 years, leading investments in financial institutions in Sri Lanka and providing advisory for IFC's financial institution clients in Asia Pacific.

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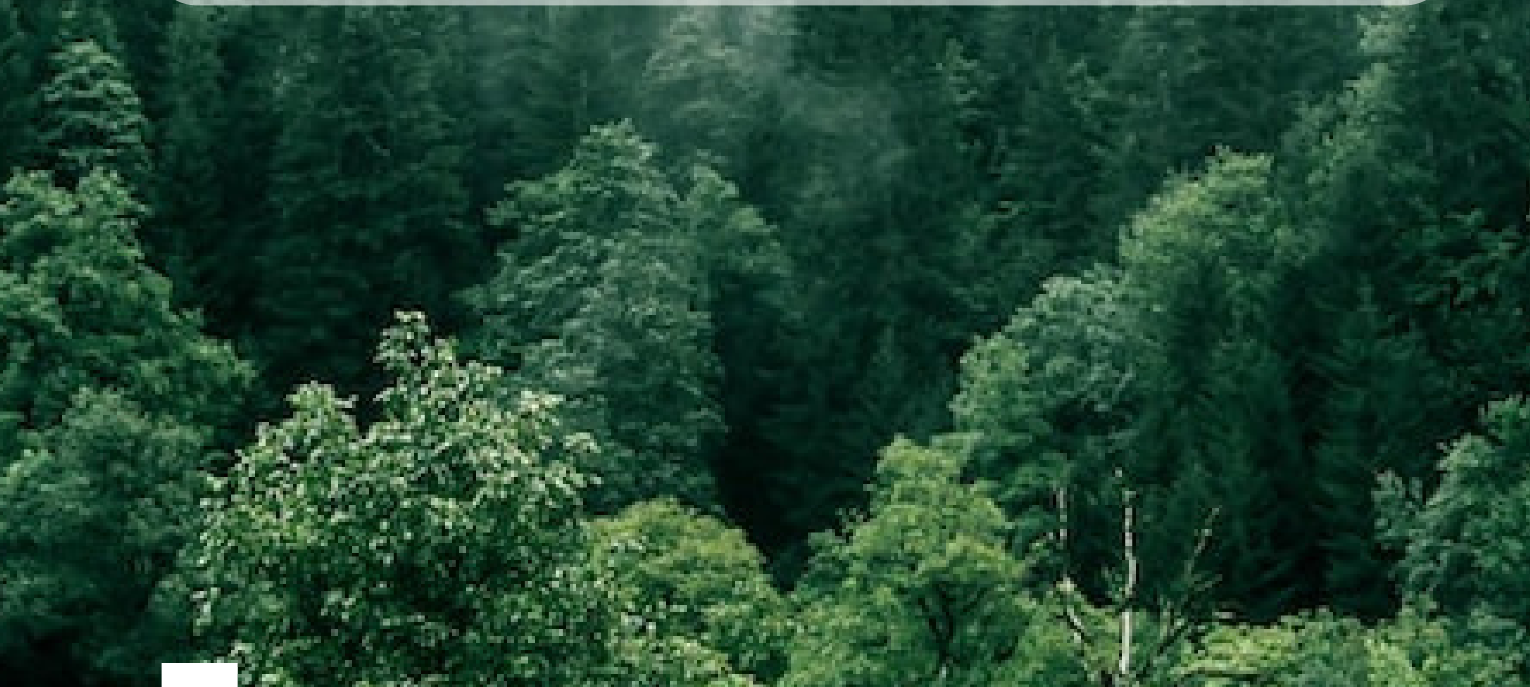
WHAT IS ESG INVESTING AND WHAT ROLE DOES ESG INVESTING PLAY IN THE CONTEXT OF THE SRI LANKAN MARKET?

ESG stands for Environmental, Social, and Governance. ESG analysis has increasingly become one of the most important parts of the investment decision-making process as investors increasingly consider non-financial factors to assess the risk and growth of the opportunities for a company and to gain a clear understanding of the companies in which they invest.

ESG matrices are not commonly a mandatory part of a company's financial reporting though companies are increasingly making efforts to disclose the ESG indicators in their annual reports where some companies have developed sustainability reports. Numerous institutions such as Sustainability Accounting Standards Board (SASB), Global Reporting Initiative (GRI), and the Task Force on Climate-related Financial Disclosures (TCFD) are working to set uniform standards and define materiality thresholds. ESG can be incorporated in an objective manner in the investment decision-making process where the objective is to have a common standard for ESG reporting which makes it easier for both the company and the investors. To cope with this objective Chartered Financial Analysts (CFA Institute) has developed a global ESG disclosure standard for investment products which helps to build the framework for managers to communicate better to their clients, the nature and characteristics of ESG - centric funds and investment strategies. Over time, as the global ESG disclosure standard develops, the CFA institute has launched an ESG qualification that offers both practical application and technical knowledge in the fast-growing ESG investing field, which gives the opportunity to accelerate progress and demonstrate the purpose for future professionals in ESG investing.



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HOW DOES AN ESGS FRAMEWORK SUCH AS GLOBAL REPORTING INITIATIVE (GRI) AND THE UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS (SDGS) DEMONSTRATE A COMPANY'S CONCERN TO ACHIEVE POSITIVE CLIMATE ACTION AND CREATE AN ECONOMY WHICH IS MORE ROBUST AND RESILIENT?

As I previously mentioned, Global Reporting Initiative (GRI) is a part of one of the many institutions to have a harmonious framework to report ESG indicators in a meaningful manner that can be used by investors in making investment decisions. Referring to United Nations Sustainable Development Goals (SDGs) I can say that it is a bit broader and a holistic approach compared to ESG just in aspects that encompass a lot more areas. SDGs were invented by the United Nations General Assembly back in 2015 whose mission is to be a blueprint for the peace and prosperity of people and the planet, in the present as well as in the future. The 17 goals of sustainable development are being incorporated with the actions of all the developed and developing countries into a global partnership the goals they have recognized include eliminating poverty, ending hunger, and addressing climate change as some of the strategies that go hand in hand with good health, quality education and gender equality that spur the economic growth. The 17 SDGs are integrated with the hope that the action in one area will impact the outcome in others and that development will balance social, economic, and environmental sustainability. Therefore, SDGs are a much broader concept compared to ESGs. If a company has good ESG practices, they align with SDGs as well.

HOW ESG AND THEIR DISCLOSURES WOULD HELP POTENTIAL INVESTORS TO DETERMINE WHETHER THE BUSINESS IS A " GOOD CORPORATE CITIZEN " AND A " WORTHY INVESTMENT "?

If you are specifically an equity investor in a company, you should make a long-term view about the prospects of the company where this particular decision will be driven by possibility and the growth prospects of the company whereas if you are a jet investor you have a shorter horizon and is more focused in the company's ability to regrade the debt install and service the interests agreed. Even though the objectives are different if we take a broader view of them, these are pretty much the same. In the Sri Lankan market, we can see the importance of ESG factors if a company doesn't focus on it, the company will be catastrophic specifically in terms of financial loss and the company's reputation. While ESG disclosures are useful for potential investor settings and the most important way is to go beyond these disclosures and have ESG practices that are actually followed by the company.

If we consider the three aspects of ESG, environmental, social, and governance. In today's world, it's hard for a company to be sustainable if they are not responsible and cautious for the environment they operate in nationally and internationally.

Secondly, the company should give more attention to the way they treat employees, the surrounding community, and its customers as customers are a part of society. Unless a company doesn't have a good relationship with society it's hard for a company to survive in the market. If I give an example that shows the importance of a company is responsible for society is the Tata-Nano plant which was originally established in a part of India. They failed to practice ESG factors and the local community was against the fact that the factory was managed in their community. So Tata-Nano had to relocate the factory to another part of India which led to a massive negative impact on the company. Ultimately it was considered a dead project because it caused a lot of damage to the reputation of the company.

Finally, relating to Governance, it mainly focuses on the internal control of the company. When investors invest in a company essentially a minority takes a lot of comfort from the internal governance process. Therefore, the company should have a very strong governance framework in order for investors to invest in the company. Unfortunately, at present, Sri Lanka is facing a similar situation due to its weak financial position, and the breakdown of the governance structure of both national and international investors which has made it difficult to raise finances in the global market. So it's very important either for a company or for a country to have a very strong governance system and external finances to raise finances. Otherwise, the consequences will be more diable as we faced in the past two months as Sri Lankans.

PRESENT DAY, IT'S BEEN OBSERVED MANY SRI LANKAN COMPANIES HAVE BEEN FOCUSED ON INCORPORATING ESG INTO THEIR BUSINESS STRATEGIES. DO YOU THINK NOW IT'S TIME TO ACCELERATE THESE EFFORTS TO BE COMPETITIVE AND ATTRACT POTENTIAL INVESTORS?

It's good to see companies being more conscious about ESGs and incorporating them to increase their business strategies. For example, the soft drinks that we drank in the past came in glass bottles before the usage of plastic which was a relevant conscious decision. As there was a very strong environmental consciousness in the past but with the introduction of plastic and single materials, we have made a turn back to the situation we were in a couple of decades back which we should admire. Then looking at the social aspect, in the past companies were much more socially conscious and there were harmonious relationships between businesses and society which broke down over time as companies got more competitive and focused on more profits rather than having a good balance between the two. Finally, relating to governance, compared to the past in the present it has deteriorated. This has not only happened in Sri Lanka but also in most parts of the world due to the standards being much higher and much more honorable in the past than today. Therefore, we need to improve the standards and improve business operations which will definitely have a positive result because when we improve business operations across ESG we can witness a specific reduction in funding costs that will improve the profitability of the investments. In a nutshell, the increased focus on ESG is very good and is likely to have more positive benefits all around the business.

HOW WOULD A BUSINESS FOCUS ON SEEKING POSITIVE RETURNS IN THE SHORT TERM WHILST LOOKING FOR LONG-TERM SUSTAINABLE SURVIVAL AMIDST AN ECONOMIC CRISIS?

It's a tough challenge for companies in the current environment due to the numerous challenges they have to face on a daily basis therefore survival has become the main focus of most companies at the moment where the strongest companies will survive, which will make the path to grow and prosper in the future. The efficient management of ESG factors determines whether the company is strong or weak. Particularly I would give first preference to Governance. If a company has a strong and inclusive governance structure that company is able to manage or face current challenges compared to a company with a weaker governance structure. Then referring to the Social aspect, the companies which have invested to have strong social networks, better relations with the employees and customers, and society at the large will of course can take advantage of this environment where they would have employer goodwill, customer goodwill, and the goodwill of the neighbors in the society to go through this tough time. Lastly, considering the Environmental aspect, with the current situation in the country everything has gone up in price so there's no room for wastage. If the company is environmentally sustainable the wastage is minimal compared to a normal company which is a huge advantage as certain items are short in supply. Therefore, the companies that were early movers and invested in ESG earlier are in a better position to survive the economic crisis.

DO WE SEE ANY INTEREST FROM LOCAL INVESTORS REGARDING INVESTING IN COMPANIES WITH HIGH ESG? AND COULD WE EQUATE THE COMPANIES IN THE WHITELIST AS COMPANIES WITH A DECENT ESG SCORE?

Local investors are increasingly looking at ESG but based on the market practices they tend to focus more on governance compared to the environmental and social part at the moment and I guess over time they will equally focus on the environmental and social aspects as well. Large investors and professional fund managers have separate shortlists of the companies which have better and weaker governance. If a company falls into the weaker governance list most fund managers and large investors will tend to avoid and will stay away from investing which will be a life-or-death situation for such companies. In the capital market, if the investors don't have confidence in a particular company's governance system, they will be challenged to raise funds under very challenging circumstances because it is a natural process when it is tough investors will invest in the company they feel safer rather than investing in risky companies. Therefore, the company should have a strong and inclusive governance framework that is acceptable for the investors to raise funds in the long term and particularly during this crisis. So, I think it's never too late for the companies who are facing challenges due to the weak governance structure, as they should look at how to improve the governance framework to make up for their investors' expectations. If you look you can see investors have many options, unless you make their requirements come true, they will fund in. This is not only applicable to companies but also to the country as well. In Sri Lanka, we should improve our governance structure and public finances and should show that we can service their text at difficult times if not it will be impossible for Sri Lanka to invest in the global market. It's a very important takeaway for both the country level and company level to get the governance correct. Therefore, we can conclude that Governance is the key to everything.

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THE WAY OF HANDLING MONETARY POLICY AS A SOLUTION FOR THE PREVAILING ECONOMIC CRISIS IN SRI LANKA

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CONSUMER INFLATION IN SRI LANKA CLIMBED TO A RECORD 69.8% IN SEPTEMBER 2022 WHICH AGAIN MADE CLEAR THAT THIS ONGOING STRUGGLE IS THE WORST FINANCIAL CRISIS IN SEVEN DECADES. HENCE, WHAT COULD BE THE REASONS FOR THIS CONTINUOUS SPIKE IN INFLATION RATES?

Compared to the month of September 2022, the inflation rate dropped in October to 66%. Hence, it's not a continuous spike in inflation rates. The country can expect a reduction in inflation in the future. It does not mean that the prices will come down, but the rate at which the prices are increasing will come down (disinflation situation). One of the major factors influencing inflation is the "expectations" of people on inflationary pressure. Hence, the Central Bank of Sri Lanka must manage the expectations in terms of the inflation rate.

Additionally, both demand-side factors and supply-side factors can affect inflation. From a macroeconomic perspective, when the economy is doing well, people have money in their hands. Hence the aggregate demand for goods and services will go up. It creates pressure on the price. The Demand can be enhanced due to several reasons. During the covid-19 pandemic, the monetary policy maintained a very low-interest rate and still, the Central Bank is pumping money into the government because of low government revenue.

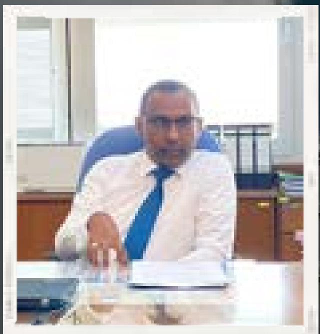
In Sri Lanka, supply-side determinants highly affected the inflationary pressure. During the Covid-19 pandemic, all the supply chain-related distribution got affected, and after the pandemic, there came the payments crisis and FOREX crisis which affected fuel availability, and again increased the price level of goods and services. This situation has been happening for a while. In March 2022, the exchange rate depreciated quite a lot. From LKR 200, fixed dollar level increased up to LKR 230 level initially and it went up to LKR 380.

Further, Sri Lanka is highly dependent on imported goods, even for the essentials, as well as intermediate goods like fuel. Everything became expensive with the depreciation of 40% and also with the rise in the price of fuel in the international market. The prices have almost doubled now and it is reflected in the consumer market basket and is measured by the Department of Census and Statistics.

Accordingly, there were domestic pressures, global pressures, supply-side pressures, and demand-side pressures that contributed as the main causes of the rising inflation in Sri Lanka. As the main responsible institution for maintaining price level stability, the Central Bank of Sri Lanka has to reverse the course. Certain factors like global factors cannot be controlled, but the demand can be controlled. Thus, the monetary policy had to be tightened.

If

WHAT ARE THE MONETARY POLICY OPERATIONS AND TOOLS THAT THE CENTRAL BANK UTILIZES TO CONTROL INFLATION AND MAINTAIN IT WITHIN THE DESIRED PATH?



Dr. P.K.G. Harischandra

In August 2021 the Central Bank of Sri Lanka started the tightening cycle of the monetary policy. The monetary policy mainly affects the cost of money (Interest rates) and the availability of money (money supply). The Central Bank had control over both during this period. By increasing interest rates, credit growth is expected to decline as with the increased cost of funds, the borrowings become expensive. This leads to the Economic activities becoming moderate and the Gross Domestic Product (GDP) and the income of the economy comes down while reducing the inflationary pressure.

The tax rates were further increased which resulted in the disposable income of people to go down. That caused the consumers to demand less, and everything is now happening to reduce the inflationary pressure. Further, the world food prices index as also come down as a whole. Hence the inflationary pressure can be expected to reduce gradually, but it does not happen in the span of two or three months because it was rising from last year.

During the month of October and November 2021, the inflation rate crossed the 10% level. There was a gradual increase during a period of one year, reaching the level of 69.68% in September 2022 as the peak and so, it will take a while (a similar amount of time) to come down. Inflation will come down because there's a statistical effect, that is called the “Base effect”. That is, considering year-on-year inflation, if there had been a huge increase in the price level in October 2022, by October 2023 that will reflect in the year-on-year indicator. The prices will remain high, but it is the change in prices that will be less. So, from November 2022, we can expect to have a significant, favourable base effect to support this disinflationary path.

SRI LANKA HAS BEEN FREQUENTLY CITED AS AN EXAMPLE OF AN ECONOMY WHICH IS NOT WELL MANAGED OR GOVERNED. THIS ILLUSTRATES THE SEVERITY OF THE CURRENT CRISIS. SO HOW CAN THE COUNTRY INCREASE ITS ABILITY TO EARN FOREIGN EXCHANGE AND HOW CAN THE COUNTRY MOVE ABOVE AND BEYOND THE RECOVERY?


Dr. L.R.C. Pathberiya

If you see why this economic crisis is, it's mostly because of the twin deficit, where there is an increment in both the Fiscal (Budget) and Current Account deficits simultaneously. If you see the last 74 years since independence, the government budget has been in a deficit, and always government revenue (except for two or three years in the 1950s), has been low compared to government expenditure. Hence to cover the budget deficits the government adds public debt also. Currently, Sri Lanka has a huge debt stock which is more than 100%, and the current account deficit. Imports are higher than exports. Hence who is going to fund those dollars? If there is a Rupee shortfall it's internal, but when there is a dollar shortfall, dollars can't be printed. Hence this situation is called a "Balance of Payment Crisis". The last gross official reserves were at very minimal levels. Since May, June, and July 2022 there is a little stability, but still, people have some difficulties as inflation is high. The overall inflation is 66% and food inflation is more than 90%. This could increase poverty levels. It can't be avoided in a crisis, but the country needs to try to have a recovery as soon as possible, a faster recovery. The steps have already been taken. If you see the budget deficit, the government has taken bold measures to increase tax revenue. Hence it will reduce the gap between revenue and expenditure and the central bank has taken measures as discussed before to curtail inflation and increase interest rates.

But still, this interest rate is not a welcome measure by the public because the borrowings are highly expensive, but somehow all the initiatives have been taken to stop the inflation from moving towards hyperinflation. So that the economy would not collapse. Hence there could be some increase in poverty levels, and there could be some reduction in the well-being of the people, but the current policy measures that have already been taken and some reforms will lead to the enhancement of living standards of people gradually. There's a reform agenda by the government. For example, restructuring loss-making state-owned businesses and labour laws. These structural reforms will have an impact on the recovery and the recovery will surely be sustainable.

SRI LANKA ANNOUNCED ITS FIRST FOREIGN CURRENCY SOVEREIGN DEBT DEFAULT IN APRIL 2022 DUE TO THE SEVERE FOREIGN CURRENCY SHORTAGE. THE CENTRAL BANK HAS MADE SUCH A DECISION AFTER STARTING ITS DISCUSSIONS WITH THE INTERNATIONAL MONETARY FUND (IMF) AS THEY ARE IN THE MIDDLE OF A DEBT RESTRUCTURING PROCESS. WHAT IS THE INTENTION OF THE IMF BEHIND THIS TEMPORARILY SUSPEND OF REPAYING DEBTS? DO YOU THINK THAT THIS DECISION WOULD FURTHER DAMAGE THE CONFIDENCE IN THE CURRENCY AND THE ECONOMY?

As mentioned before. Our debt has been accumulating over the years since 1948 and it became more than 100% and even foreign debt has been quite high. At the end of the year 2021, the country faced a foreign currency issue, the forex crisis. Hence the government didn't have enough money to buy fuel, essential food items, and essential medicines. So that is why the country had a huge social uprising in March, April, and May 2022. Hence if the Central Bank keeps paying debt, the very essential requirements cannot be met. Hence the government had to announce a debt standstill. In this debt standstill what the government has said is, they don't pay temporarily external commercial debt like International Sovereign Bonds (ISB) and also bilateral debt like country-to-country debt.

The government, said that it temporarily holds this debt and then there's a debt restructuring process. Even now this process is ongoing. The Central Bank discusses with the creditors to see whether it can restructure debt. Restructuring means getting some time to pay debt and getting some concession or some reduction in what needs to be paid. For that, the government has hired financial advisers and legal advisers. What's the IMF policy if the debt is not sustainable? The IMF has a program, which means that they will give some financial support for the budget, and they agreed with the government authorities on a macroeconomic plan. So, if the debt is not sustainable, they will not initiate the program. Now, the IMF is here. There was a staff-level agreement in September 2022 and the process is ongoing. There are discussions ongoing with the creditors and when creditors agree to restructure the debt, the IMF will also start releasing funds.

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CYBERSECURITY IN FINANCE AND WHAT YOU SHOULD KNOW

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CYBERSECURITY is all about protecting our digital assets.

WHAT IS CYBERSECURITY? WHERE DO CYBERSECURITY PRACTICES AND ENGAGEMENTS STAND GLOBALLY?

Think about how you would protect any physical asset. Generally, a company would keep them under lock and key because these assets would always generate revenues for the future, and hence is important to protect. Similarly, the digital assets of a company must also be protected.

Most of the time these digital assets are not identified as assets in the balance sheet of the company. Thus, although being intangible assets, they are not reflected in the balance sheet. Hence, the security of these digital assets can be easily neglected, and the information is left vulnerable to security breaches that can lead to several undesirable consequences. This is why multiple countries have General Data Protection Regulations (GDPR) in place about accessing information stored digitally by various organizations.

Accordingly, it is crucial that organizations and countries carefully identify their digital assets, understand the importance of protecting these assets, and particularly think along the lines of GDPR to secure their data and information.

WHAT MUST AN INDIVIDUAL KNOW ABOUT CYBERSECURITY THAT’LL PROTECT THEM FROM CYBERATTACKS ?

Here, it is important to consider both the individual perspective and the company perspective.

From an individual perspective, every individual must be made aware of the threats of having their information that is sensitive and confidential exposed to cyberattacks. These threats include real-world incidents like credit card thefts and identity thefts.

From a company perspective, the threat of having their information exposed to cyberattacks would mean more devastating losses. Thus, when a company collects people’s data, it must make sure to be careful.

For instance, let’s take the cyber-attack on Optus, a very recent incident, as a real-world reference. Optus is a leader in Australian telecommunication which is a wholly owned subsidiary of a Singaporean telecommunications company Singtel. (Wikipedia and Optus website). Optus was subjected to what was reported to be a “sophisticated cyber-attack” in September 2022 where records of massive numbers of customers were compromised in a data breach including ID document numbers such as driver’s license and passport numbers for a subset of customers which became a serious concern. As the incident was identified, Optus took steps to shut down the attack and went on to notify the public of the attack, and released a warning to alert the public about suspicious activity in customer accounts. With no delay, they alerted the Australian Cyber Security Centre and Australian Federal Police and collaborated with them to track the criminals and retrieve the customer data that had been stolen. Thereafter, they took measures to reconstruct the exposed data and contacted all affected customers, and provided actionable advices. To date, investigations are running concerning the attack and Optus has taken measures to increase the level of support available for its impacted customers through its' call centers and messaging channels, including extending service hours to assist customers.

Another recent incident would be the cyber-attack on Medibank, one of Australia's largest health insurance providers. This attack was reported in October 2022, and at least 4 million customers' data had been compromised in the attack. The hackers had gained access to certain customers' data and significant amounts of health claims data. While investigations into the attack are still underway, Medibank has taken measures to provide support packaged to affected customers and taken steps to increase the level of assistance to customers such as extending service hours, assigning new cyber response hotlines, arranging experienced and qualified mental health professionals for affected customers to discuss any mental health questions or issues and are in discussion with stakeholders of the Australian Government about what more they can do to assist the customers in safeguarding their identities and health information.

When observing these recent events, both these events relate to personal data breaches. In both these cases, it can be noticed that the organizations victimized by the cyber-attack have reported these personal data breaches to relevant government authorities and have been timely with their engagements with these authorities. They've also acted accountably and have taken care to inform affected customers without undue delay.

All in all, even with the maximum level of security and protection, it is possible to experience asset theft and have your assets exploited in some way. So, to prevent cyber-attacks or to act fast on a cyber-attack before the repercussions become severe, both the individual and the company must know to be vigilant of any suspicious activity.
Accordingly, preventing cyber-attacks boils down to both personal responsibility and corporate accountability.

IS IT POSSIBLE TO DETECT A CYBERATTACK BEFORE IT IS COMPLETED?

PREVENTION IS BETTER THAN CURE

and this analogy will work in this case as well

Therefore, the best would be to secure your assets, whether physical or digital, before any attack. This would mean taking measures like hiring or consulting an IT security company or an asset integrity and reliability management agency to protect your assets, restricting the level of access employees and other stakeholders have to company assets, keeping a record of all your assets, keeping your software up to date and simply enforcing more security measures if you feel as though there are still vulnerabilities in your system. Doing so will help notice suspicious or fraudulent activity more distinctly and thereby help detect cyber-attacks faster.

WHAT MEASURES CAN YOU TAKE IN RESPONSE TO AN ONGOING ATTACK?

If you're a company, you must ensure there is adequate insurance coverage for the cyberattack and you must also ensure that you undertake necessary controls to reduce the cyber risk.

Further, as previously mentioned, you must always consult professionals in this area to make sure that your company is protected.

Moreover, even concerning insurance, you must seek advice and inform the relevant authorities as soon a cyber-attack is detected because, in some countries, some specific rules/processes need to be followed if a company has been attacked, and not acting to comply with those rules and procedures can result in fines and litigation against your company.

WHAT RECOVERY MEASURES MUST YOU TAKE POST-ATTACK ?

After a data breach, you must follow a response plan and take action to contain the cyber-attack or even stop it. Thus, as a necessary step, you should have a business continuity and disaster recovery plan that is ready to be implemented immediately.

It is also essential that the company conducts a root cause analysis and find out if the company has taken the necessary measures to protect itself, and if not, ensure that they do so.

These cyber-attacks can happen again in the future, hence it is important that you analyze and identify security gaps in your system and improve your cyber-security procedures.

IS THE LEGAL INFRASTRUCTURE IN PLACE GLOBALLY AGAINST CYBERATTACKS SUPPORTIVE OF HOLDING THE RIGHT PERSONS ACCOUNTABLE FOR CYBERATTACKS?

The legal infrastructure that is in place globally is rather an evolving space, and it is difficult to pinpoint the accountability of one person as the cause may be due to multiple issues and not just one issue.

WHY IS CYBERSECURITY IMPORTANT FOR FINANCE ?

In a nutshell, IT is an enabler of the business strategy and this is a direct link to the security aspect. Therefore, Finance professionals need to be aware of the opportunities as well as the risks and a good cyber security plan must be included in the digital strategy of the company.

WHO IS RESPONSIBLE FOR ENSURING CYBERSECURITY? IS THERE A RESPONSIBILITY GAP WHEN IT COMES TO DEFENDING SYSTEMS AGAINST CYBERATTACKS ?

In this question, we need to think about what a cyber attack would mean to a business. If a cyber-attack takes place, it will impact the business and will cause a drop in business revenue, defame the business, decrease the company share prices, subject the company to fines and charges, and overall, will reduce the value of the company.

So, the overall responsibility of maintaining the value of a company is foremost with its board members. Thus, the board needs to assure the company shareholders to maintain and increase the value of the company. Accordingly, the board needs to provide a governance structure to secure the company against cyber-attacks. For this, the board has to be digitally savvy and cyber-savvy regardless of the domain they may be specialized in.

WHAT ARE THE BEST PRACTICES OF CYBERSECURITY THAT MUST BE FOLLOWED IN THE FINANCE INDUSTRY ?

Addressing from a risk perspective, it's crucial to first identify the data and processes that are vulnerable to attacks and is of high value to an attacker. For example, the payment processes of a business. This is a highly vulnerable process involving high risk.

Thereafter, it is important to consider access controls, both physical and virtual for both employees, suppliers, and customers as well as these portals can also be tactical entry points for hackers.

Thirdly, continuous education on cybersecurity is key.

CAN AN ENTITY ACHIEVE AND SUSTAIN A HIGH LEVEL OF CYBERSECURITY JUST THROUGH INTERNAL MEASURES AND CONTROLS? OR ARE THERE EXTERNAL BARRIERS THAT COME IN THE WAY?

The answer to this would be that the ecosystem is constantly evolving including technology. Therefore, we will have to constantly be vigilant and test the controls in place and adapt new controls.

WHAT WEAKNESSES ARE PRESENT GLOBALLY THAT MAKE INDIVIDUALS AND ENTITIES WITHIN THE INDUSTRY VULNERABLE TO CYBERATTACKS?

The biggest problem would be the lack of awareness. Living on the assumption that this will not be an experience one might have to go through makes this topic to be neglected by many without the required level of awareness.

HOW DO COMPANIES AND SOCIETY KEEP PACE WITH EVOLVING TECHNOLOGIES THAT GIVE RISE TO EVOLVING CYBER THREATS?

New Technology may bring in new and amazing opportunities but will also create areas where people can get unnecessarily exposed. So, keeping pace with these evolving technologies is not just about qualifying in this discipline, but about continuously staying up to date. Thus, this is an area that requires continuous learning, and as individuals, we need to be vigilant and be on top of the latest cyber issues and take steps to protect ourselves against those issues. Educating society at an early age about cybersecurity, its importance, and how to protect themselves against cybercrime is a pivotal step to raising the level of awareness in society. As for organizations, it is crucial that companies take steps to regularly educate their staff on cybersecurity matters and raise awareness amongst employees through training programs and promoting best practices of cybersecurity day-to-day.

SUSTAINABLE FINANCE, GREEN BONDS AND WAY FORWARD

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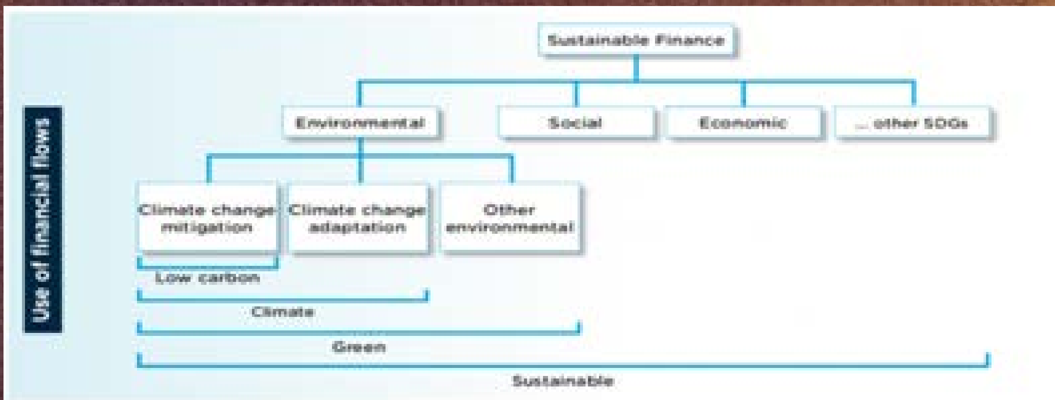
Sustainability is becoming a popular concept all over the world due to economic, climate, and health crises experienced by the world. Policymakers and governments seek ways and means to build a sustainable world. Thus, achieving sustainability is a common challenge for all countries regardless of their development status. With the identification of the need for sustainability in every aspect, responsible global organizations started discussions to identify solid mechanisms to achieve sustainability.

The United Nations introduced Sustainability Development Goals (SDGs) in 2015. They emphasized the problem of climate change through the Paris agreement. All countries in the Paris agreement are devoted to strengthening climate actions to reduce climate-related vulnerability. Thus, technological enhancements evolved in the world to facilitate a sustainable future.

Although more sophisticated technologies have developed and standardized, financing of such projects appeared as a limiting factor. Accordingly, sustainable finance becomes the most critical aspect of sustainability, that further challenge the journey toward sustainability.

Sustainability finance considers environmental, social, and governance (ESG) considerations when making investment decisions in the financial sector, leading to increased longer-term investments into sustainable economic activities and projects (European Commission). UN Environment & World Bank Group (2017) identified environmental, social, economic, and other SDGs as the key considerations of sustainable financing. Green financing is one of the sub-components of sustainable financing, and it assures the funding of climate change mitigation, adaptation, and other environmental considerations.



Source: UN Environment & World Bank Group, 2017. Roadmap for A Sustainable Financial System. Adapted from UN Environment Inquiry, 2016. Definitions and Concepts: Background Note.

The green financing concept has evolved to transfer a substantial amount of funding from environmentally harming technologies to environmentally resilient technologies. According to International Energy Agency (2015), this transferring process requires an additional investment of USD 36 trillion by 2050, with a US$ 7 trillion annual investment requirement. The World Bank (2019) emphasized that at least US$ 90 trillion will be required by 2030 to make a significant investment in green infrastructure, and in turn, the world will yield US$4 on US$1on average. However, the world has not yet reached the required investment for climate action as anticipated.

Due to the relatively high cost associated with environmentally resilient projects, especially upfront costs, it is usually difficult to use retained profits to finance such investment needs. Therefore, companies must search for capital, such as bank lending, market debt, and market equity (Campiglio, 2016). Even if Campiglio (2016) identifies bank lending as the most crucial source among these, Green Bond is universally accepted as a better solution to acquiring needed capital to finance climate-resilient projects. Green Bond (GB) market is commonly accepted as a place for environmental, social and governance (ESG) focused investors and for conventional fixed-income investors who eagerly seek efficient ways to 'green' their portfolios. In diversifying the investment portfolio with 'green' identification, investors account for both ESG and pricing considerations.

Green Bond is also a fixed-income debt instrument, yet, the proceeds through Green Bond issuance could be used only for green investments. The European Union issued the first-ever Green Bond in 2007, followed by the issuance of the World Bank in 2008. However, the market has not yet attracted a sufficient amount of suppliers and investors to the Green Bond market mainly because of the enormous cost associated with the issuance process to the issuers and the fear of greenwashing to the investors.

On top of that, overly complicated standards and regulations further discourage market participants. Thus, the Climate Bonds Initiative (CBI) emphasized that at least US$ 5 trillion of Green Bonds alone should be issued annually from 2025 to reach the global financing target. Accordingly, they published the 'Five steps to Five trillion manifesto' suggesting five actions the world actors should together be taken to face the climate risk. Label Green, Define transformation, Accelerate Policy, Grow pipeline, and Boost emerging markets are the five steps proposed by the CBI to achieve this striving target. Further stressing the problem, the CEO of CBI, Professor Sean Kidney, stated that;

> "To stand a chance of meeting the Paris Agreement's 2050 targets, we must slash emissions in half this decade. This means scaling capital flows to climate causes at speed, starting with an annual $5trillion of sustainable finance being issued by 2025. Without the long overdue response to the climate crisis being realized, history will forever look back upon this moment as a monumental failure for mankind"

CBI announced that US$2 trillion in green bonds had been issued worldwide at the end of quarter 3 of 2022 and claimed this as a pretty good achievement amidst geopolitical tensions and rising inflations worldwide since 2021. However, they stressed the urgent need to implement the fifth step of their five-step manifesto to help emerging markets vulnerable to climate risk. At the same time, despite increasing urgency, they pointed out the inadequacy of Western Private Capital for green investment needs.

Sri Lanka has also stepped into the sustainable finance concept as a climate vulnabarel country and a party to the Paris agreement. Accordingly, the Sustainable Development Council is established as the first country to appoint a Parliamentary Select Committee on Sustainable Development. Also, the Sustainable Development Act No. 19 of 2017 was enacted in Sri Lanka to provide a legal framework and a national policy for Sustainable Development. To implement the procedure, the Central Bank of Sri Lanka, in collaboration with the Sustainable Banking Network (SBN) of the International Finance Corporation (IFC), initiated the sustainable financing agenda in 2016.

A roadmap for Sustainable Development has been introduced through a steering committee established under the Central bank of Sri Lanka with six core pillars, namely (1) Financing VISION 2030, (2) ESG Integration into Financial Markets, (3) Financial Inclusion, (4) Capacity Building, (5) International Cooperation, and (6) Measurement and Reporting. Under the sixth key pillar of the Roadmap, the Green Taxonomy has been introduced to provide a clear definition and guideline for sustainable activities.

This taxonomy will help institutional investors and other key stakeholders to understand the sustainable activities in Sri Lanka, enabling them to invest in sustainable activities. Climate change mitigation, Adaptation, Pollution, prevention and control, ecological conservation, and resource efficiency are the four main objectives driven through the Sri Lanka Green Finance Taxonomy. The Technical Expert Committee considers local standards and international alignment in developing the Taxonomy for Sri Lanka.

As the latest development, the CBSL, in collaboration with the Climate Bonds Initiative, is developing the Green Bond Framework for Sri Lanka. This will be a remarkable milestone in the sustainable finance agenda of the country and a turning point for emerging economies with more significant economic and climate challenges.

Regardless of whether a country is rich or poor, the climate risk will challenge the existence of every living creature. therefore, all mechanisms should be taken by developed and developing countries to reduce carbon emission actions to flow the funds from dirty activities to green initiatives.

SRI LANKA'S RECOVERY FROM THE CURRENT ECONOMIC CRISIS

AND HOW THE INSURANCE INDUSTRY CAN CONTRIBUTE TOWARDS THIS RECOVERY

Mr. Ruwan Jayasekera,
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Once seen as a model for a developing economy, Sri Lanka is facing an economic crisis it has not seen in its post-independence history. The economic crisis has become a political crisis and humanitarian emergency and affected Sri Lankans from all walks of life. The crisis has impacted the poor with greater intensity jeopardizing their rights and access to food, health, education, transportation, etc. Many believe that the country's current economic crisis is a result of years of imprudent fiscal and monetary policymaking, unchecked external borrowings, corruption, and mismanagement of the country's assets due to a lack of good governance. To make matters worse, some of Sri Lanka's main income sources, such as foreign remittances, tourism, and apparel and tea exports were significantly affected in recent years due to factors such as the COVID-19 pandemic, 2019 Easter Sunday terrorist attacks, conflict in Ukraine and its economic implications, etc. Regardless of the origin and contributing factors, unless urgent measures are taken to recover from the economic fallout, the current crisis may develop into a full-blown socioeconomic crisis with adverse conditions such as lack of access to financing/credit, a slump in internal and external investments, a falling GDP, high deficits and debt ratios, loss of income, unemployment, poverty, enforced migration, homelessness, and incapacity to satisfy basic needs.

During times of national crisis, it becomes everyone's responsibility, not just the government, to do their part to recover from the crisis. Even though the current economic crisis is an unprecedented event in Sri Lanka's history, the same history reminds us that managing through it will not necessarily be unique. Sri Lanka has seen its fair shares of challenges, such as a 30-year civil war with the LTTE, a devastating tsunami in 2004, and deadly bombings on churches and leading hotels in 2019, but these unfortunate events remind us that each time, we as a nation have emerged stronger. We must remind ourselves that we are a resilient nation!

The corporate sector, especially those in the financial services industry can play a crucial role in supporting the recovery of the country's economy. Insurance companies as – providers of risk transfer and indemnification; organizations that employ a significant number of people; large investors in financial markets; and significant corporate taxpayers, can contribute to economic recovery and growth. However, before we look at how the insurance sector could contribute to the recovery, it is important to first understand the impact of the crisis on the insurance sector. At its core, asset and liability matching is the way for insurance companies to remain financially strong to meet their obligations to policyholders, but a prolonged economic crisis can have a significant impact on both the asset and liability side of their balance sheets. Insurance companies may see a decline in new business growth and premium collections due to clients cutting back or shrinking their insurance coverages; increased claims and a rise in fraudulent claims; compromise on risk selection and underwriting quality; increased reinsurance costs and fall in the real value of investment portfolios and therefore capital levels.

Even with all these challenges insurance industry remains a major component of the country's economy of the role it plays by covering personal and business risks; the scale of its investment; and the employer of thousands of people.

According to the statistics published by the Insurance Regulatory Commission of Sri Lanka, a total of 27 insurance companies operating in Sri Lanka's insurance sector by the end of 2020 with 13 companies providing long-term insurance (also known as life insurance), 12 general insurance companies and 2 composite insurers who provided both long term and general insurance services. Eight of the 27 companies were listed on Colombo Stock Exchange. Overall, the industry reported a total premium income of LKR 208 billion in 2020 and an asset base of LKR 797 billion as of 31 December 2020. The Insurance sector employed approximately 20,000 individuals in 2020 and the total number of agents servicing the insurance industry was reported as 42,719 by the end of 2020.

LET'S NOW LOOK AT THE WAYS THE INSURANCE SECTOR COULD CONTRIBUTE TO THE ECONOMIC RECOVERY OF SRI LANKA:

Insurance companies help the economy by paying claims for financial losses incurred by the policyholders and beneficiaries. In 2020, Sri Lanka-based insurers incurred total life insurance claims of LKR 38 billion and net general claims of LKR 42 billion. If not for insurance, part of this burden will fall on the government, for example, paying compensation to victims or healthcare costs. Insurance claim payments benefit not only those directly affected by loss but others as well.

For example, many claim payments under general insurance ultimately go to vehicle repair shops, building material shops, building contractors, and hospitals to fix vehicles, rebuild homes and provide medical treatment. These various businesses need to continue to operate to keep people employed and pay taxes. As we know, tax is a primary source of cash flow for the government to cover its expenses. Insurance companies can make an extra effort to highlight to the public the importance of having insurance, especially at a time of economic uncertainty; introduce affordable insurance products; introduce flexible payment plans for insurance premium payments, and promptly settle insurance claims.

As insurance companies collect premiums in advance of any claim payments, they convert most of their premium income into mid-term and long-term investments. As investors, insurance companies play a notable role in investing in government debt securities, for example, in 2020, investments in Sri Lanka government securities were recorded as LKR 310 billion, with long-term and general insurers investing in 43% and 29% of their assets respectively. Such investments help the government to lower borrowing costs that will in turn allow for greater investments, bolster job creation and maintain economic activity. With higher interest rates offered, insurance companies may want to consider increasing their investments in government securities.

To tackle the record-high inflation in the country, the Central Bank of Sri Lanka raised interest rates and borrowing costs. While higher interest rates may help to bring down inflation, they will also bring some pain to families and businesses, for example, those businesses that rely on financing and consumers who rely on credit cards and loans. If businesses cannot grow without additional funding, fewer jobs would be created, or employees may be laid off. Insurance companies can help such affected parties in two ways – by offering loans to policyholders under life insurance policies at reasonable rates and by providing insurance coverage to businesses to support borrowings from lending institutions. Lenders may offer a lower interest rate than they could if no insurance were available.

Some people and businesses believe that they do not need insurance because they have enough wealth to cover their unexpected financial losses. Whilst this may be possible for some, such an arrangement requires them to set aside significant amounts of money in anticipation of a financial disaster. However, if people arrange insurance to cover their financial interests, they can have a higher level of consumption and spending on their most important needs, which will in turn help stimulate the economy.

Due to the closure of many small- to medium- businesses, many individuals have already lost their jobs and unfortunately, this situation will likely get worse before it gets better. The longer the inflation remains high, the country will see layoffs and increased unemployment. However, the insurance industry may see an opportunity in this situation to increase its sales force to bring more new business. Approximately 42,000 agents were involved in the insurance industry at the end of 2020, but with an insurance penetration rate[1] of 1.39% and insurance density[2] of LKR 9,501, insurers have the potential for growth even under challenging circumstances.

Even though the insurance sector in Sri Lanka is small compared to the banking sector in terms of total assets[3], insurance, is an integral part of the country's economy, performing a variety of important functions. Where every single contribution matters to come out of the current economic crisis, the insurance industry should be able to contribute towards this recovery in a significant way.

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[1] Total premium of insurance business as a % of Gross Domestic Premium
[2] The ratio of insurance premiums to population (per capita premium)
[3]Banking sector reported LKR 17 trillion in 2020 compared to LKR 797 billion reported by the insurance sector

Navigating the Turbulent Times

A RISK MANAGEMENT PERSPECTIVE ON

"Sri Lanka's recovery from the current economic crisis"

Mr. Gayantha Weerakoon
Deputy General Manager
Enterprise Risk Management
LOLC Holdings PLC

THE PERFECT STORM

Shat world lies beyond that stormy sea I do not know, but every ocean has a distant shore, and I shall reach it.

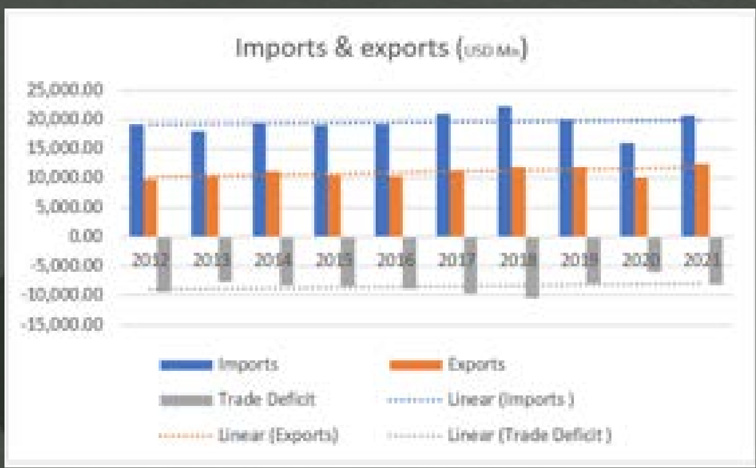
-Cesare Pavese-

Risk management in simple terms is all about identifying potential uncertainties which will hinder the achievement of your expectations. It is said that the biggest risk in risk management is not identifying risks. It is safer to say that no one expected a situation of this nature in 2019.

FINANCE OUTLOOK

The COVID-19 pandemic had an unprecedented impact all over the globe and can be considered a global systemic risk. Leaving aside the human cost of the pandemic it has far-reaching impacts on logistical operations, labour & Capital which, finally resulted in the slowing down of the global economy. Globalisation came under threat as risks of interdependencies among countries on food, energy, & labour for critical operations threatened the concept of globalisation as concerns on food security, energy security and the operational environment became key focus areas for the countries. Each Country has a different risk profile driven by its exposures, economic structural imbalances, and financial strength to absorb economic shocks, hence is today undergoing difficulties in varying degrees. Sri Lanka is no exception.

Risks are interrelated and given the myriad of risks faced by Sri Lanka, it is pertinent to understand the key risks and their drivers. It is no secret that Sri Lanka is a consuming nation where throughout our recent history we have run a trade account deficit.



Source : CBSL External Sector Data

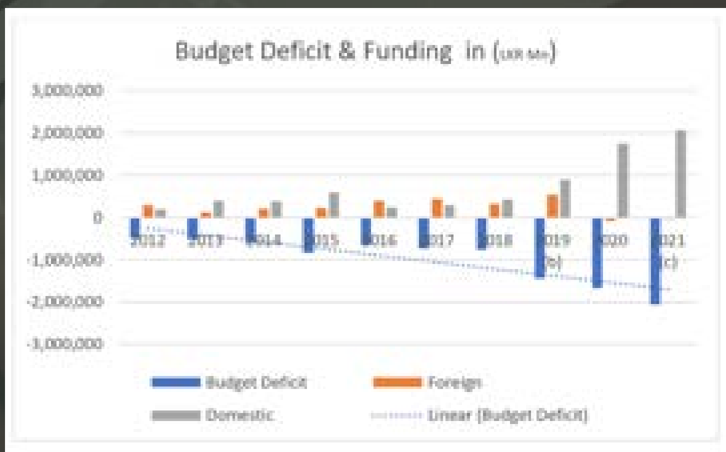
Although the aforesaid shows a declining deficit, if the impact of 2019 COVID-19 and beyond is taken off a widening trade deficit is depicted. In the Sri Lankan context funding this deficit has mainly come from the service sector income (tourism and other services) and worker remittances. The inadequacy of service sector income to bridge the trade gap has resulted in Sri Lanka running a deficit in its current and capital accounts in the long term which can be considered one of the key risks. The aforesaid foreign currency cash flow is further stressed by the external sector debt repayments. Although a certain level of relief can be sought from FDIs (Foreign direct investments), its frequency and continuation cannot be relied upon or predicted with a degree of certainty.

In USD Mn	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Current Account	- 3982	- 2541	- 1988	- 1883	- 1742	- 2309	- 2799	- 1843	- 1187	- 3349
Current + capital Ac	- 3,851	- 2,470	- 1,929	- 1,836	- 1,717	- 2,298	- 2,785	- 1,820	- 1,159	- 3,318

Source : CBSL External Sector Data

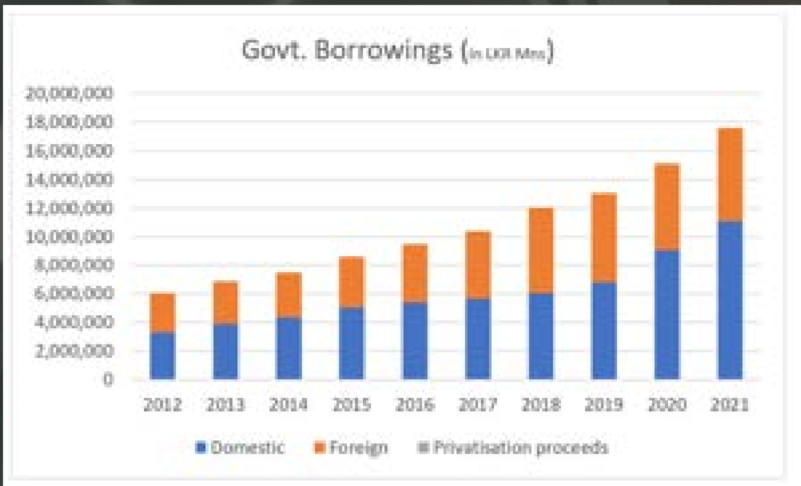
While the status of the external sector is as discussed above. The domestic sector activities are denoted by the fiscal operations of the government. The government is entrusted with creating and facilitating an environment for economic growth and the fiscal operations provide insight into how the government revenue and expenses are managed.

Source : CBSL External Sector Data



The government revenue is highly influenced by the policies of the government and despite the policy differences, it is noted that successive governments have run a budget deficit. Further noted that the budget deficit had widened over the years. Maintaining a widening budget deficit in the long term can be identified as another key risk for Sri Lanka.

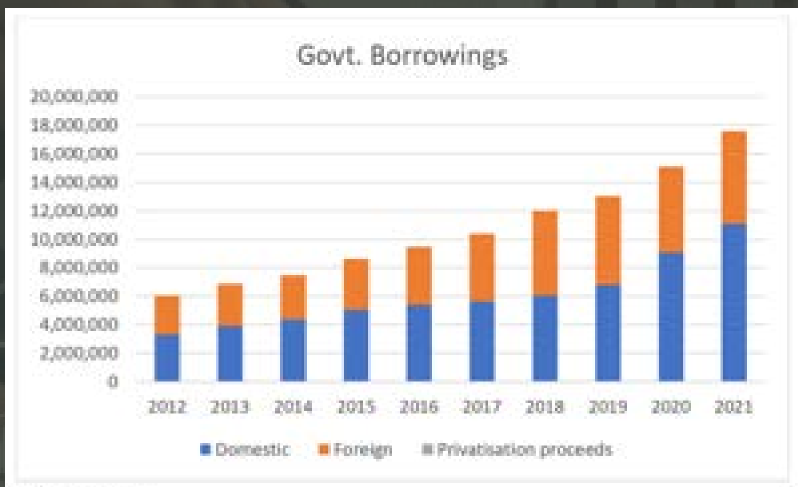
Sri Lanka is faced with a high-risk situation of managing twin or double deficits both in its external sector and domestic fronts and widening these deficits in the long term is not a sustainable option if the economy is not grown significantly. Managing twin deficits of this nature require raising funds as debt or by the sale of assets. In addition to managing twin deficits, the government need to continue its development activities too, while the funding for development activities can be by way of FDIs or debt; when the debt option is selected it further stresses debt sustainability if the economy is not on a growth trajectory.



Source : CBSL External Sector Data

it is noted that in the recent past no government has resorted to privatisation to raise funds to manage the twin deficits but has increasingly looked at borrowing both externally and in the domestic market. However, the result is increasing govt debt and one downside of this strategy is that the economy has not grown in the same phase to offset the debt burden. This gives rise to a debt sustainability risk which can be considered another Key Risk indicator.

Source : CBSL External Sector Data



Key to any risk mitigation is identifying the risks. As per the above analysis, we have identified 03 key risks which have materialised in the Sri Lankan context and are the proximity causes of the present economic situation. However, it is also important to identify what factors drive these risks to have an in-depth understanding of the risks and their implications.

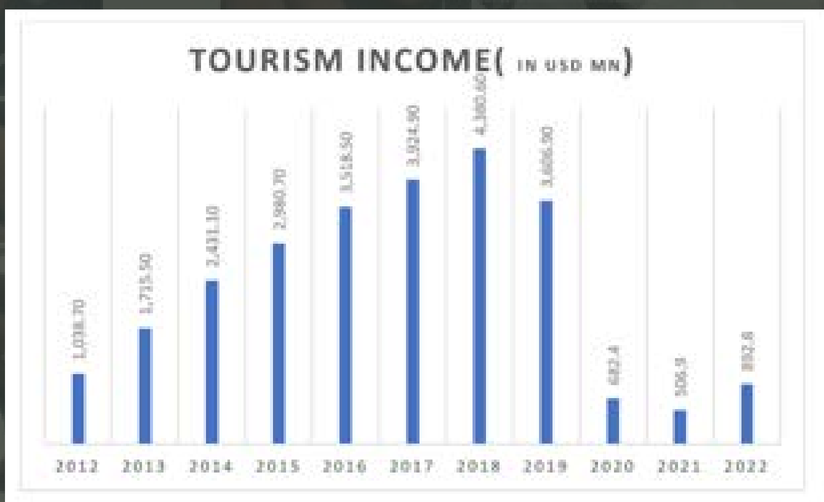
Key Risks	Risk Drivers
Current /Capital Account Deficit	Exports
	Imports
	Tourism Income
	Foreign Remittances
	FDIs
Budget Deficit	Govt. Revenue
	Govt. Expenses
Debt Sustainability	Debt Composition
	Total Debt

Source : CBSL External Sector Data

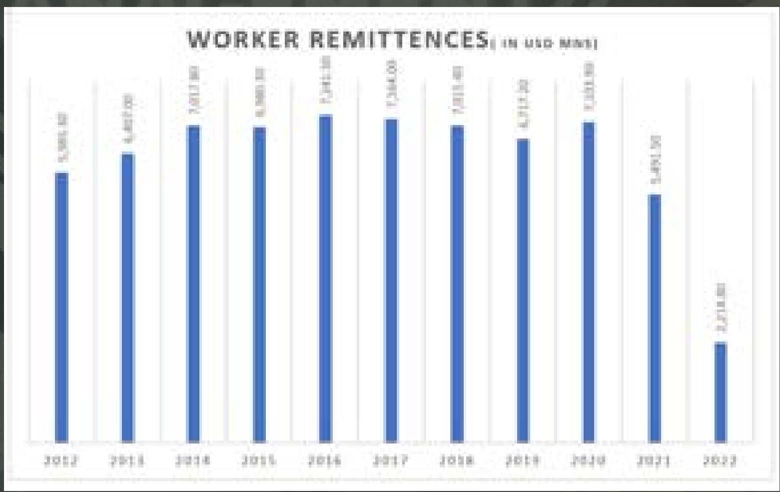
While the policy decisions on how you manage the risk drivers have an impact on the key risks. It is also important to identify any external shocks which may have contributed to the adverse behaviour of such risks. As far as Sri Lanka is concerned two such major shock events can be identified. The easter attack in April 2019 and the COVID-19 pandemic and its related implications. has a significant effect on the aforesaid risk drivers.

The easter attack on Sri Lanka in 2019 had a significant impact on a booming tourist industry which was growing significantly after 2009. The tourism industry which had contributed apx, 4 Bn as of the last operational year was further impacted by the COVID-19 pandemic which drove the industry to a standstill.

Source : CBSL External Sector Data



The COVID-19 pandemic resulted in a significant amount of job losses as well as a voluntary vacation of posts as foreign-employed Sri Lankan citizens decided to return home due to the uncertainties stemming from the pandemic. Subsequently as a remedial measure to ease the downward pressure on the exchange rate the government brought in fixed-rate currency management policies. This decision prompted speculatory behaviour by consumers as well as currency traders. In this environment, a significant section of the people may have resorted to using informal/illegal modes of remittances resulting in a significant drop in inward remittances.



Source : CBSL External Sector Data

The combined effect of tourism income loss and reduction of foreign remittances resulted in approx. a shortfall of USD 11 Bn (considering the last known year under normal operations 2018). This can be considered a significant shock to the economy of Sri Lanka.

Then on the domestic front, the government policy decision to reduce tax rates pre-covid resulted in a loss of revenue to the government. Although considered to be an economic stimulant the expected result could not be seen as the impact of COVID negated any positive results as the economy contracted due to covid and resultant impediments to normal operations. Although additional savings due to the tax cut may have helped certain businesses/individuals to stay operational and to absorb COVID-related disruptions, quantification of the same is difficult due to lack of data. Despite this situation the govt. was compelled to spend significantly on COVID-related relief work and prevention programmes which have contributed adversely to the budget deficit.

External Debt composition
2nd quarter 2022

Source : CBSL External Sector Data

All through the above-illustrated composition of debt did not have a direct impact from the external shocks discussed. it is an important factor as it signifies a USD 8Bn liability which is payable in the short term thus a material stress factor to the foreign currency cashflows.

The combined effects of the risks driven by the adverse behaviours of the risk drivers discussed above are the proximity causes for the current economic woes of the country and in simple terms, any recovery strategy should focus on managing the aforesaid risk drivers to influence the desired behaviour of the key risks to control the same within the risk appetite of the country (Level of risk which is expected or desired to manage the impacts at a tolerable level).

NAVIGATING TO CALMER SEAS

Sri Lanka's recovery from the current economic crisis is dependent on how the behaviour of identified risk drivers is managed to achieve the desired results. The following matrix although not exhaustive identifies a few key high-level strategies Sri Lanka should peruse to overcome the proximity causes of this economic crisis. The recovery time will depend on the effective management of the various risks and behaviour of risk drivers which has the potential to derail the recovery effort.

Key Risks	Risk Mitigation objective	Risk Mitigation Strategy
Current /Capital Account Deficit	Improve Exports	Encourage Export Oriented Business
		Ensuring the receipt of collection proceeds
	Reduce Imports	Import Substitution
		Restrict Non-essential Imports
	Increase Tourism Income	Tourism Sector Infrastructure Development
	Increase inward Foreign Remittances	Facilitate /encourage /incentivise foreign remittances
	Increase FDIs	Maintain Conducive Environments for Business
		Reduce entry barriers
Budget Deficit	Increase Govt Revenue	Profitable SOEs
		Enhance tax net
	Decrease Govt. Expenses	Privatisation
		Reduce Subsidies
		Govt. Workforce optimisation
Debt Sustainability	Maintain Appropriate Debt Composition	Debt restructure
	Reduce Total Debt	Debt Reschedule

In general, any strategy to work the policy consistency and the stability of the government is of paramount importance; there the legislature must sort out whatever indifferences and restore normalcy and rule of law in the county which, is conducive to carrying out economic activity. in this aspect energy, food & social security must be ensured as far as possible as riskiness or uncertainty in these elements has the potential to destabilise the country. It is not my intention to go into detail about each strategy but only to highlight potential key risks under each strategy that Sri Lanka need to manage to achieve its full potential within a short recovery lead time.

Looking at the commodity export sector reveals that our exports are mostly in raw form, and it holds for agriculture as well as mineral exports. The risk of stagnation in the raw produce import sector without moving to value-added manufacturing must be avoided. Exporters should be encouraged and incentivised to move into the value-added product manufacturing category as margins are high than in the raw form. In addition, the service sector and agriculture /fisheries sector has more potential to improve as factors of production are mostly localised. (Key raw materials and labour /skill). Although garment exports top the list under the industrial category it should be noted that there is a significant outflow of forex for materials imported.

Further noted that Sri Lanka despite having the required skills, technology, and expertise to produce a Sri Lankan brand is currently trapped in the bulk manufacturing category in garments. The higher margins are in the branded retail sector. There is a clear opportunity or upside risk here which can be exploited. given the threat posed by other countries offering cheap labour bulk order clients may relocate thus concentration risks in this sector need to be managed. Further, a significant number of industries import their raw materials by converting domestic currency to foreign currencies (Purchase of foreign currency) and proper legislation and a mechanism must be available to ensure that export proceeds are remitted to Sri Lanka to prevent a net outflow of forex due to parking of funds in offshore accounts by the exporters.

2021 imports	USD Mn	% Out of consumer goods imported
Vegetables	384.27	9.98%
Dairy products	317.67	8.25%
Seafood	122.33	3.18%
Spices	127.23	3.31%
Medical and pharmaceuticals	882.52	22.93%
Rubber products	102.28	2.66%
Telecommunication devices	382.88	9.95%
Clothing and accessories	221.31	5.75%

Source : CBSL External Sector Data

Any initiative for import substitution is expected to be met with resistance therefore its vital that the government manages the change/ transitions with effective public awareness and protection mechanisms for the new industries which are at their incubation stage.

Tourism sector branding & positioning will play a vital role in attracting numbers. lack of an integrated campaign will misposition Sri Lanka as a brand and will not have the desired effect. this has been a drawback for the tourism industry over the years. Traditional promotions where only our historical and cultural values are highlighted do not appeal to a wider audience. therefore, the brand positioning should address all we could offer, as our strength lies in Sri Lanka's ability to cater to the interests of a wider spectrum of travellers. The risk of inadequate tourism-related infrastructure is evident as we lag far behind when facilities for travellers are considered. Traditionally our focus had been on providing accommodation whereas travel facilities, leisure, entertainment, wine & dining facilities are not on par with what our competitor markets offer. various branches of tourism such as adventure, health, Eco & Agri tourism are often neglected. This is a Risk of a narrow focus on tourism and should be avoided. In addition, the threat posed by our competitor markets is also significant, if we are to have a competitive edge, we should address the value for money aspect by improving the service standards to be world-class

The main risk for forex remittances is that there is an effective underground/illegal money transfer mechanism in operation which offers rates which are beneficial for the customers. The situation is further aggravated due to the restrictions imposed on foreign currency outflows which creates a market for illegal outward transfers such a situation is conducive to underground money transfer mechanisms. These mechanisms usually are money laundering operations and law enforcement action needs to be taken to discourage usage

FDI risks are mainly related to inconsistencies in govt. policy, barricades for new entrants and bureaucracy in dealing with govt, institutions. The state should be in a position to offer all required approvals for investment categories identified to potential investors. In addition, the present forex crunch causes impediments in sourcing raw materials in case of interim goods and a mechanism needs to be established for such organisations to obtain raw materials without any hindrance if we are to attract FDIs.

Restructuring of SOEs (State-owned enterprises) is a must to reduce government expenses but will be a risky political move. However full privatisation may also result in situations where the government loses control over essential and critical services which allows the government to carry out its social welfare interventions. Therefore, it is of paramount interest to maintain the desired mix of public-private partnerships. The tax system is the main source of govt. revenue and inadequacies of the tax net coverage is a major risks and often countered by an effective tax collection system. Sri Lanka is a welfare state, and several subsidies are given aiming to protect vulnerable sections of the society and to stimulate economic activities, yet there is a high risk of abuse in these systems as not only the needy but others are also benefited. These systems should be streamlined and controlled to minimise corruption.

The debt sustainability was put under immense stress due to forex cash flow imbalances as discussed in the first half of this article and this risk led to the default of external debt payments. it is vital that Sri Lanka archives equilibrium status where it can pay for its essential imports plus its debt commitments out of the generated cash flows without further increasing its debt burden. On the other hand, to overcome the current economic challenges and to implement risk mitigatory actions discussed above Sri Lanka need to maintain its development /growth programmes and counter inflationary measures such as increase of policy rates. In addition, policy rate hikes by CBSL to counter inflation do not create a conducive environment for any investor to raise debt capital and the govt too is not in a position to borrow more to fund its development activities externally. Therefore, the options available are limited to domestic borrowings and money infusions. This creates a vicious cycle and is the biggest risk to recovery. Therefore, it is vital to break the cycle. Debt restructuring and rescheduling will give Sri Lanka a certain level of leverage to operate and access to funding which will facilitate an increase in reserves. Once the key risk of debt sustainability is addressed a calculated risk has to be taken to stimulate the economy. Any economic recovery will depend on the accessibility of credit to investors, and this requires a reduction of policy rates. While the government has to raise funding for development by additional borrowings or infusing money into the economy. These measures have competed objectives and an appropriate mix as the situation warrant is a key to success.

Sri Lanka is strategically located in the Indian Ocean and its water resources are of future importance to the world, in addition, China's belt road initiative with which Sri Lanka is an important link is not looked at favourably by the western block of countries; these factors put Sri Lanka under risk of geopolitical rivalry which cannot be discounted lightly. Despite various calamities in its history, Sri Lanka has been resilient and recovery times were less. If the risk factors of recovery strategies are managed well Sri Lanka can come off the economic crisis in a shorter period.

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