

BUSINESS DIALOGUE



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RISING FROM THE ASHES: ECONOMIC & BUSINESS PERSPECTIVE

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VICE-CHANCELLOR'S MESSAGE

The Business Dialogue magazine is indeed one of the most anticipated publications, and as always it has undoubtedly proven to be a source of immense value and inspiration. This edition is an extension of the previous issue, addressing a timely and essential discourse, as we, as a nation, and as global citizens 'rise from the ashes.' This attempt at exposing and encouraging innovative thought and proactive responses by various individuals and industries is sure to spark much-needed discussions on the best and most productive ways forward.

As a university with the aim of moulding undergraduates with the ability to think on their feet in a critical, innovative and analytical manner, discourses that depict the ground realities of the world, whether in business or in general, are certainly warranted, especially from the mouths of eminent practitioners, researchers and academics who 'walk the talk'.

Thus, I would like to take this opportunity to extend my heartiest congratulations to the Business Dialogue magazine team on the success of this issue of the magazine, embedded with great value. This endeavour will provide insight into the incisive decisions and processes taken during a time of re-development and re-assessment, a true benefit to all its readers.

As a forward-thinking entity, NSBM Green University always strives to be ahead of the game, contemplating and carefully planning for a future riddled with challenges, which can definitely be overcome with the best and most innovative minds. Our philosophy of ensuring our students strike the right balance between studies and extracurriculars, whilst also instilling the values that they shall carry with them within professional and larger social spheres, promises future-ready, dynamic graduates with the penchant to lead with a discerning mindset.

With this stark vision in mind, our university will continue to engage in such impactful and timely initiatives on a local and global scale, to ensure our students gain the traction and exposure they require to reach the highest of peaks. As the Vice Chancellor of this transformative institution, I would like to thank the NSBM team for their unparalleled commitment towards ensuring the best. Wishing my dearest team and all the wonderful readers of this issue the courage to transform every adversity into the best of opportunities and thrive in success!

Prof. E. A. Weerasinghe
Vice Chancellor
NSBM Green University



MESSAGE FROM THE EDITOR-IN-CHIEF

It is with pride that I express my thoughts on the new issue of the Business Dialogue magazine focusing on how the business sector could succeed amidst current economic challenges in the country.

Business Dialogue is a testament to the active contribution of NSBM Green University towards the academia and the industry over the years. With each issue of the magazine, we have established noteworthy dialogues on a plethora of business-related topics. Being a university, which opened a new chapter in the Sri Lankan higher education system, we strongly believe that it is our utmost responsibility to discuss and disseminate knowledge to the higher education sector of the country, which attracted the pivotal attention of all policy makers and leaders in directing the whole country to rise as a nation.

This issue of the Business Dialogue magazine attempts to bring together many different perspectives, viewpoints and opinions on the

theme: "Rising from the Ashes: Business and Economic Perspective", a timely and apt theme which requires substantial discourse in the country. Thus, this issue discusses the contemporary economic challenges that the business sector in the country encounters whilst seeking to implement wide-ranging economic reforms for economic recovery and rise as a nation.

The issue of the NSBM Business Dialogue is a result of the contribution of a team comprising of academics, administration and students. I would like to also extend my sincere thanks to all the resource and distinguished personnel who devoted their precious time to express their thoughts on a variety of topics. I believe this leads to the unfolding of successful stories of iconic business personalities.

In conclusion, I would like to extend my warm wishes to NSBM Green University to achieve success in the future.

Prof. J. Baratha Dodankotuwa

BUSINESS DIALOGUE

RISING FROM THE ASHES:
ECONOMIC &
BUSINESS PERSPECTIVE

EDITOR - IN - CHIEF

Prof. J. Baratha Dodankotuwa

EXECUTIVE EDITOR

Ms. Tharani Sooriyaarachchi

DESIGN

Mr. Ashika K. Witiwalarachchi

PHOTOGRAPHY

Mr. Osanda Sandaruwan

Mr. Thiwanka Kaushalya

Mr. Sisara Nawarathna

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NSBM Green University
Mahenwaththa, Pitipana, Homagama.
+ 94 (11) 5445000
inquiries@nsbm.ac.lk | www.nsbm.ac.lk



RISING FROM
THE ASHES:

ECONOMIC & BUSINESS PERSPECTIVE

Sri Lanka, a tropical paradise known for its lush landscapes and rich cultural heritage, has been through a tumultuous journey in recent years. The island nation has faced numerous challenges, including a prolonged civil war, devastating natural disasters, and a struggling economy. However, it is time for the nation to emerge from

the ashes, phoenix-like, with a triumphant revival of its economy.

The sage words of Winston Churchill, "Never let a good crisis go to waste," could not be more fitting for the present situation in Sri Lanka. The nation's economy, hobbled by one of the most formidable crises since its independence, offers an unparalleled chance to effectuate long-overdue reforms. The

examples of countries such as India and Thailand, which emerged stronger after implementing sweeping economic reforms in the wake of severe economic turmoil, serve as a beacon of hope. As the economy totters on the brink of collapse, it is imperative that a comprehensive overhaul of the economic framework be undertaken to navigate this crisis. This pivotal moment could very well prove to be the silver lining to



THE SAGE WORDS OF WINSTON CHURCHILL, "NEVER LET A GOOD CRISIS GO TO WASTE," COULD NOT BE MORE FITTING FOR THE PRESENT SITUATION IN SRI LANKA. THE NATION'S ECONOMY, HOBBLING BY ONE OF THE MOST FORMIDABLE CRISES SINCE ITS INDEPENDENCE, OFFERS AN UNPARALLELED CHANCE TO EFFECTUATE LONG-OVERDUE REFORMS



the cloud of the economic recession that has enshrouded Sri Lanka.

From an economic standpoint, the root causes of the present crisis can be traced to the persistent twin deficits of fiscal and trade. To

mitigate the effects of this economic maelstrom, the government has embarked upon a mission to bring these deficits into balance. The strategy to curb the fiscal deficit involves an intense regimen of both direct and indirect taxation. However, the narrow scope of the tax net has rendered direct taxation a questionable solution, as a mere fraction of the populace bears the burden of financing a multitude of tax evaders. An alternative proposition

has been advanced, advocating for the implementation of targeted indirect taxes as a more effective means of addressing the fiscal deficit.

The lagging performance in foreign direct investment and export growth constitutes a significant setback for the country. In recent years, foreign investment has only increased by a paltry few hundred million dollars annually, excluding the Port City Investment. This



lackluster influx of foreign capital, classified as "new," is largely comprised of reinvestments by current entities. The foremost obstacle to attracting foreign investment in Sri Lanka is the lack of ease in doing business.

In the midst of global economic turmoil, Sri Lanka has a unique opportunity to boost its exports from \$10 billion to \$20 billion in the next 3 to 5 years by attracting foreign direct investment in

cutting-edge industries. The key lies in targeting technology, renewable energy, energy storage systems, and sustainable mobility products - all of which are in high demand and offer vast potential for growth. With its strategic location, Sri Lanka can establish itself as a regional and global hub for these exports.

To make this a reality, the government must prioritize restructuring its governance and engage with the business

THE LAGGING PERFORMANCE IN FOREIGN DIRECT INVESTMENT AND EXPORT GROWTH CONSTITUTES A SIGNIFICANT SETBACK FOR THE COUNTRY. IN RECENT YEARS, FOREIGN INVESTMENT HAS ONLY INCREASED BY A PALTRY FEW HUNDRED MILLION DOLLARS ANNUALLY, EXCLUDING THE PORT CITY INVESTMENT. THIS LACKLUSTER INFLUX OF FOREIGN CAPITAL, CLASSIFIED AS "NEW," IS LARGELY COMPRISED OF REINVESTMENTS BY CURRENT ENTITIES. THE FOREMOST OBSTACLE TO ATTRACTING FOREIGN INVESTMENT IN SRI LANKA IS THE LACK OF EASE IN DOING BUSINESS

community to drive investment. The legislative and executive branches must work together and take action to address the country's current crisis, while businesses can support the government by advocating for policies that attract FDI. Simultaneously, efforts must be made to reduce government expenditure and streamline state-owned enterprises to reduce the fiscal deficit and create a stable investment climate.

Thus, Sri Lanka must take bold steps to recover from the economic crisis and secure long-term growth. This requires a focus on enhancing fiscal and debt sustainability, implementing structural reforms, and



maintaining tight monetary policy to control inflation. The financial sector must be carefully managed, especially given its high exposure to government and SOE debt, while restoring a flexible exchange rate will support external adjustments and rebuild international reserves. It's also important to minimize the impact on the poor and vulnerable during the adjustment period.

While these reforms may temporarily impact growth and poverty, they will lay the foundation for sustainable growth and regain access to international financial markets. Previous experiences of other

SRI LANKA MUST TAKE BOLD STEPS TO RECOVER FROM THE ECONOMIC CRISIS AND SECURE LONG-TERM GROWTH. THIS REQUIRES A FOCUS ON ENHANCING FISCAL AND DEBT SUSTAINABILITY, IMPLEMENTING STRUCTURAL REFORMS, AND MAINTAINING TIGHT MONETARY POLICY TO CONTROL INFLATION. THE FINANCIAL SECTOR MUST BE CAREFULLY MANAGED, ESPECIALLY GIVEN ITS HIGH EXPOSURE TO GOVERNMENT

countries have shown that recurring crises are the result of failure to address root causes. Political leadership and citizens must be resolute in their commitment to structural reforms and share the burden of recovery, with higher-income groups taking on a larger role to protect the vulnerable. Debt restructuring and international support will be crucial to closing the financing gap and maintaining progress. Sri Lanka has the potential to emerge from the crisis as a strong, resilient economy, but it will require a collective effort from all stakeholders.

By Gishan Abhayagunaratna

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NSBM GREEN UNIVERSITY
Mahenwaththa, Pitipana, Homagama, Sri Lanka.



+94 71 244 5000

+94 11-544 5000

nsbm.lk

nsbm_srilanka

www.nsbm.ac.lk

phd@nsbm.ac.lk

NSBM_SriLanka



THE ROLE OF POLICY REFORMS IN ACHIEVING A SUSTAINABLE ECONOMIC BOUNCE-BACK

DR. PKG HARISCHANDRA

DIRECTOR OF ECONOMIC RESEARCH - CENTRAL BANK OF SRI LANKA

Dr. PKG Harischandra works as Director of Economic Research of the Central Bank of Sri Lanka. He is a member of the Monetary Policy Committee of the Central Bank. Further, Dr. Harischandra works as Chair of the Research Advisory Committee of the Economic Research Department and as Editor of Staff Studies Journal of the Central Bank. Previously, he has worked as Additional Director General of Fiscal Policy Department and Director of Economic Research of the Ministry of Finance on secondment basis from the Central Bank, and also represented the General Treasury at the University Grants Commission. Prior to joining the Central Bank, he worked as an Assistant Lecturer at the University of Kelaniya. He has published research articles in international and local journals on the areas of monetary policy, inflation persistence, exchange rate regimes, business cycles, financial system stability indicators etc., and has authored articles for local periodicals on various themes.

What is your overview of the current state of the Sri Lankan economy?

The economy is experiencing its largest economic contraction in the post-independence period, resulting from heightened macroeconomic instabilities, particularly on the fiscal and external fronts, which culminated in an economic crisis. Although the economy was on a recovery path after the COVID-19-induced contraction, with the onset of an unprecedented economic crisis owing to fuel shortages, power outages, widespread scarcity of key imported raw materials and other essentials, and the soaring cost of production, the economy contracted by 7.1 percent during the first nine months of 2022, compared to a growth of 3.8 percent in the corresponding period of 2021. The combined effect of shortages in raw materials amidst tight foreign exchange liquidity, volatility in commodity prices, vulnerabilities



“

ALTHOUGH THE ECONOMY WAS ON A RECOVERY PATH AFTER THE COVID-19-INDUCED CONTRACTION, WITH THE ONSET OF AN UNPRECEDENTED ECONOMIC CRISIS OWING TO FUEL SHORTAGES, POWER OUTAGES, WIDESPREAD SCARCITY OF KEY IMPORTED RAW MATERIALS AND OTHER ESSENTIALS, AND THE SOARING COST OF PRODUCTION, THE ECONOMY CONTRACTED BY 7.1 PERCENT DURING THE FIRST NINE MONTHS OF 2022

”



in power and energy sectors, as well as the tightening of both monetary and fiscal policies are expected to weigh down the economic performance during 2022. However, concerted policy measures implemented by the Central Bank and the Government along with demand management strategies have supported in smoothening the supply of essentials, including fuel, pharmaceuticals, and fertilizers,

and curtailed the economic and social issues to a great extent, resulting in some improvement in overall economic activity, while inflation also has been following a

disinflation path since October 2022. Meanwhile, economic activity is expected to remain subdued in the first half of 2023 owing to lingering effects of ongoing macroeconomic vulnerabilities in the economy, notable upward adjustments to domestic tax structure, and a possible slowdown in the global economy due to monetary policy tightening by major central banks around the world to arrest inflationary

pressures as well as geopolitical fragmentations. Considering the envisaged progress that has been made thus far in relation to the Extended Fund Facility (EFF) arrangement from the International Monetary Fund (IMF) and debt restructuring negotiations along with the policy priorities to address structural issues in the country would expect to support the transition of the economy to a sustainable recovery path in the period ahead.

As far as you think, what are the main factors contributing to the current crisis and the resultant hardships?

The current economic crisis is a culmination of several deeply entrenched structural problems, particularly the twin deficit in the Government budget and external current account. Persistently limited fiscal space, which was further constrained by the changes introduced to the tax structure in late 2019 resulted in the downgrading of sovereign credit rating and thus restricted access to international capital markets. Most of the State-Owned Enterprises (SOE) in the country tend to be straddled by low productivity while distorting competition and being afflicted by corruption. This has resulted in them being a significant burden on the budget and the government, while also burdening the financial system. Low levels of liquidity in the domestic foreign exchange market owing to a delayed recovery in tourism earnings, slow conversion of export proceeds, increase in import expenditure as well as unfavorable market conditions led by several sovereign downgrades led to a foreign exchange crisis thereby resulting in many hardships to the public. The sudden disastrous switch to

“THE CURRENT ECONOMIC CRISIS IS A CULMINATION OF SEVERAL DEEPLY ENTRENCHED STRUCTURAL PROBLEMS, PARTICULARLY THE TWIN DEFICIT IN THE GOVERNMENT BUDGET AND EXTERNAL CURRENT ACCOUNT. PERSISTENTLY LIMITED FISCAL SPACE, WHICH WAS FURTHER CONSTRAINED BY THE CHANGES INTRODUCED TO THE TAX STRUCTURE IN LATE 2019 RESULTED IN THE DOWNGRADING OF SOVEREIGN CREDIT RATING AND THUS RESTRICTED ACCESS TO INTERNATIONAL CAPITAL MARKETS. MOST OF THE STATE-OWNED ENTERPRISES (SOE) IN THE COUNTRY TEND TO BE STRADDLED BY LOW PRODUCTIVITY WHILE DISTORTING COMPETITION AND BEING AFFLICTED BY CORRUPTION”

organic farming in 2021 led to serious impacts on the country's economy and food security. Further, external factors have compounded the catastrophe, including the COVID-19 pandemic. Mobility restrictions and other containment measures imposed locally and internationally, intending to prevent the spread of COVID-19, hampered real economic activity across all sectors. Further, escalation in global commodity prices, including food and energy mainly due to geopolitical tensions in the Eastern Europe region also affected the Sri Lankan economy to a greater extent.

What is the role of the Central Bank of Sri Lanka during the economic and business normalcy in Sri Lanka?

The Central Bank's mandate is to maintain economic and price stability and maintaining financial system stability, to encourage and promote economic development. Price stability or stable prices means maintaining low and stable inflation levels over the period. With stable prices, both the consumers and producers can make decisions with confidence and hence the economy can perform well. Such an



“ FINANCIAL SYSTEM STABILITY MEANS THE EFFECTIVE FUNCTIONING OF FINANCIAL INSTITUTIONS AND FINANCIAL MARKETS AND THE ABSENCE OF BANKING, CURRENCY, AND BALANCE OF PAYMENTS CRISIS ”

environment allows an economy to achieve its growth potential and fosters high employment. In other words, Central Bank mainly focuses on maintaining price stability that promotes sustainable long-term economic growth and employment.

Financial system stability means the effective functioning of financial institutions and financial markets and the absence of banking, currency, and balance of payments crisis. A stable financial system creates a favorable environment for both depositors and investors, encourages

efficient financial intermediation and the effective functioning of markets, and hence, promotes investment and economic growth. In order to have a stable financial system, a stable macroeconomic environment, an effective regulatory and supervisory framework, well-organized financial markets, sound financial institutions, and safe and robust payments infrastructure are imperative.

In the context of the prevailing high inflationary environment, to counter rising inflationary pressures and anchor inflation expectations, the Central Bank has taken necessary and preemptive measures. In 2022, the Central Bank tightened monetary and liquidity conditions to an unprecedented level. Such a strong monetary policy response was necessitated to provide a signal to the economy that the Central Bank is committed to curtailing inflation, which is extremely necessary to anchor inflation expectations. Since the inception of monetary tightening measures in August 2021, the

Central Bank's key policy interest rates, have been raised by 10 percentage points, while the Statutory Reserve Ratio (SRR) applicable on all rupee deposit liabilities of Licensed Commercial Banks (LCBs) was also raised by 2 percentage points in September 2021. The increase in policy interest rates and the subsequent passthrough to market interest rates along with other measures, including the impact on disposable income due to the proposed tax revisions and the restrictions on non-urgent imports have already caused demand pressures to ease as reflected by the easing of inflationary pressures. We have already seen that inflation is now on a steady disinflation path as the Colombo Consumer Price Index (CCPI, 2013=100) based headline inflation (year-on-year), which peaked in September 2022, recording an unprecedentedly high level of 69.8 percent, moderated to 66.0 percent in October 2022 and 61.0 percent in November 2022.

The financial sector has also encountered notable challenges in



“CORRECTING FISCAL IMBALANCES WHILE MAKING PUBLIC DEBT SUSTAINABLE IS A PRIORITY TO REBUILD THE ECONOMY. FISCAL CONSOLIDATION, I.E., THE POLICIES UNDERTAKEN BY THE GOVERNMENT TO REDUCE THE BUDGET DEFICIT AND THE ACCUMULATION OF DEBT, WOULD MAKE THE PUBLIC DEBT MORE SUSTAINABLE, THUS PROVIDING THE COUNTRY WITH MUCH-NEEDED SPACE TO ENGAGE IN PRODUCTIVE ECONOMIC ACTIVITY”

the face of the current economic environment with the contraction in economic output, sovereign debt restructuring, high-interest rate environment, tax revisions, and high exposure of the banking sector to the Government and state-owned business enterprises (SOBEs). The Central Bank rigorously monitors and implements required measures to ensure the continued stability of the banking sector as well as the non-bank financial sector. To

spearhead the economic recovery process with the Government, the Central Bank contributes to the negotiations with the IMF for an EFF arrangement with the intention to restore macroeconomic stability and debt sustainability.

What are the required policy reforms to rebuild the country from your point of view?

Correcting fiscal imbalances while

making public debt sustainable is a priority to rebuild the economy. Fiscal consolidation, i.e., the policies undertaken by the Government to reduce the budget deficit and the accumulation of debt, would make the public debt more sustainable, thus providing the country with much-needed space to engage in productive economic activity. Domestic production, which is the main driver of economic growth, should be encouraged with appropriate policy reforms. Further, export-led growth strategies should also be introduced to suppress the pressures on the external sector, while contributing to overall growth. In this regard, means of building external buffers, improving technology, improving market access, and encouraging foreign investments should be explored. Many of the State-Owned Business Enterprises (SOBEs) in Sri Lanka are experiencing inefficiencies that lead to huge financial losses. The poor performance of SOBEs has put pressure on government expenditure, which eventually gets transmitted to an economic cost. Accordingly, policy reforms focusing on financial independence, autonomy, cost-reflective pricing structures, the institutionalization of good governance, accountability mechanisms, and notable productivity enhancement are needed to ease the burden on government expenditure, thereby improving value creation for the economy.

The required legislative changes to labor market laws and business regulatory reforms are important to promote and expand businesses contributing to the economic recovery process. Further, it is necessary to strengthen the legal framework to ensure public accountability of state institutions, while ensuring policy coherence. In



terms of legislative changes, the Cabinet of Ministers recently approved the new Central Bank Act, which would improve the independence, transparency, and autonomy of the Central Bank and its operations. International solidarity, corporation, and global partnerships are important to the development of a country. Such cooperation with the international community, which eliminates structural barriers, would create a conducive setting for cross-border interactions aimed at sustainable global development. Maintaining financial system stability facilitates efficient financial intermediation while building confidence among the business community and the investors. Thus, policy reforms aiming at strengthening the financial system stability would create a conducive environment for investors that in turn stimulates investments and economic growth. Uncertain policies, and inefficiencies

in institutions and administration, including corruption, malpractices, and coordination issues, continue to prevent Sri Lanka from having a business environment that is favorable for investments. Accordingly, policy reforms should focus on correcting such long-term impediments, thus improving investor confidence on a sustainable basis. The cost of failing to protect the poor and vulnerable would be far greater to society in the medium to long run. Hence, policy reforms should also look at the most vulnerable and poor population in the country, especially in the current economic condition. A strong social safety net system would protect the poor and vulnerable in their time of need, thereby allowing them to participate in economic activity, once the growth-oriented policy reforms are operational.

What are the measures you have been

“ A CONTINUOUS INCREASE IN PRICES COULD ERODE THE REAL VALUE OF PEOPLE’S INCOMES AND SAVINGS, THUS REDUCING THEIR PURCHASING POWER. THEREFORE, FIGHTING INFLATION HAS BEEN AT THE FOREFRONT OF THE POLICY OBJECTIVES OF THE CENTRAL BANK, AND MONETARY POLICY FORMULATION IN THE RECENT PAST HAS BEEN DONE WITH A VIEW TO ACHIEVING THIS OBJECTIVE ”

implementing so far, to ease the burden of the current economic hardships on the people?

From the general public’s perspective, inflation is ‘public



enemy number one'. A continuous increase in prices could erode the real value of people's incomes and savings, thus reducing their purchasing power. Therefore, fighting inflation has been at the forefront of the policy objectives of the Central Bank, and monetary policy formulation in the recent past has been done with a view to achieving this objective. Accordingly, the Central Bank has been maintaining an unprecedentedly tight monetary policy stance to contain the buildup of demand-driven inflationary pressures in the economy, while anchoring inflation expectations. A tight monetary policy stance coupled with the anticipated improvements in supply conditions are expected to play a key role in bringing down inflation to low and stable levels

over the medium term, thereby helping ease the burden of high inflation on the public. The Central Bank is aware of the impact of tighter monetary conditions on overall economic activity, including the hardships on micro, small, and medium-scale businesses. Therefore, intending to address concerns raised by parties affected by the current financial hardships, the Central Bank requested licensed banks to grant concessions to the affected borrowers by devising suitable repayment arrangements for outstanding loans.

Further, the Central Bank noted a disproportional increase in market interest rates, particularly deposit interest rates and short-term lending interest rates, which could adversely affect businesses and

individuals. Therefore, the Central Bank communicated to the banks that it expects a moderation of excessive market interest rates, consistent with the prevailing policy interest rates, supported by the current macroeconomic developments. Such a reduction in excessive market interest rates would help ease the burden of high financing costs. Meanwhile, the Central Bank has facilitated the importation of essential goods, by bridging the liquidity shortfall in the domestic foreign exchange market, thereby ensuring the continued availability of fuel, LP gas, coal, medicine, fertilizer, and other supplies to the public. Moreover, arrangements are in place to secure an uninterrupted supply of such essential commodities in the period ahead as well. The exchange rate

remained broadly stable, supported by the market guidance offered by the Central Bank since mid-May 2022, and measures are taken to improve the availability of liquidity in the domestic forex market. The stabilization of the exchange rate has minimized a further escalation of imported inflation due to the passthrough of further depreciation of the exchange rate. Further, exchange rate stability has re-established some level of market confidence, thereby eliminating certain uncertainties surrounding the business and economic outlook.

In the meantime, the Central Bank has been providing financial support to the government amid a shortfall in government revenue and limited access to foreign financing sources. Such monetary financing helped ease pressures on government cashflow operations to some extent and enabled the Government to settle payment obligations, including recurrent expenditures, such as salaries of public servants, pensions, etc. However, the envisaged revenue-based fiscal consolidation program, along with the rationalization of government expenditure, is expected to lower the monetary financing requirement in the period

In your opinion, what are the different mechanisms that can be implemented to attract FDIs?

Sri Lanka has not been able to attract FDIs up to the expected levels as well as compared to regional peers, even during the post-war period, due to structural and policy issues. FDI including foreign loans to Direct Investment Enterprises amounted to US dollars 404 million in the first half of 2022. On a sector-wise basis, major FDIs were received by projects related

to telecommunications, property development, rubber products, chemicals, textiles, and hotel sectors. In the Budget for 2023, it has been proposed to set up a single agency enabling the creation of a conducive environment for promoting investment and external trade. Accordingly, a new agency is to be set up in place of the Board of Investment, Export Development Board, Sri Lanka Export Credit Insurance Corporation, National Enterprise Development Authority, etc., with the enactment of a new law. Increased FDIs are expected in the period ahead supported by enhanced investor confidence once the Executive Board of the IMF approves the EFF arrangement. To sustain a healthy momentum of FDI

over the medium term, there is a dire need to maintain policy consistency, improve doing business conditions, strengthen institutions, uphold the rule of law, and establish institutions for effectively expediting the approval and implementation processes to facilitate FDI. Modifying labor and land laws to be more flexible, and establishing a well-structured and competitive legal, tax, regulatory, and dispute resolution mechanism would also facilitate attracting FDIs.

Development of the Colombo Port City, promoting the Colombo and Hambantota ports as commodity trading hubs and establishing modern investment zones for local and foreign private investors. It is

“ SRI LANKA HAS NOT BEEN ABLE TO ATTRACT FDIS UP TO THE EXPECTED LEVELS AS WELL AS COMPARED TO REGIONAL PEERS, EVEN DURING THE POST-WAR PERIOD, DUE TO STRUCTURAL AND POLICY ISSUES. FDI INCLUDING FOREIGN LOANS TO DIRECT INVESTMENT ENTERPRISES AMOUNTED TO US DOLLARS 404 MILLION IN THE FIRST HALF OF 2022. ON A SECTOR-WISE BASIS, MAJOR FDIS WERE RECEIVED BY PROJECTS RELATED TO TELECOMMUNICATIONS, PROPERTY DEVELOPMENT, RUBBER PRODUCTS, CHEMICALS, TEXTILES, AND HOTEL SECTORS. IN THE BUDGET FOR 2023, IT HAS BEEN PROPOSED TO SET UP A SINGLE AGENCY ENABLING THE CREATION OF A CONDUCE ENVIRONMENT FOR PROMOTING INVESTMENT AND EXTERNAL TRADE ”





imperative to expeditiously implement the legal and operational framework outlined in the Colombo Port City Economic Commission Act to attract FDIs to this project. Other areas that need improvement in attracting FDIs include strengthening coordination and monitoring mechanisms to facilitate and promote investments, while identifying key areas on investments in production, export, and energy sectors, and promoting such investment options among prospective investors.

In your opinion, what are the measures that can be taken to improve foreign earnings?

Sri Lanka reached a staff-level agreement in early September 2022 with the IMF for an economic adjustment program under the EFF of about US dollars 2.9 billion. The staff-level agreement is subject to the approval by the Executive Board of IMF in the period ahead, contingent on the implementation by the authorities of prior actions, and on receiving financing assurances from Sri Lanka's official creditors. Therefore, all efforts need to be in place to complete this process at the earliest, as it would

provide the much-needed confidence for investors and forex earners to remit funds to Sri Lanka. The Central Bank imposed mandatory conversion requirements on export proceeds and directed banks to sell a part of the converted export proceeds and workers' remittances to the Central Bank. The Central Bank and the Government also implemented several measures to encourage workers' remittances during the year. At the same time, taking into consideration the dearth of foreign exchange liquidity in the market, the Central Bank provided financing support facilitating the importation of essential imports, including that of fuel and coal, through the foreign exchange mobilized through the mandatory sale of workers' remittances and export proceeds by LCBs in 2021 and 2022.

Further, the Central Bank has established a fuel-sinking fund that will be funded by foreign exchange absorbed from the banking system to further facilitate the importation of fuel and coal to help energy security. The government and the Central Bank have appealed to the international community and

diaspora for humanitarian assistance and to finance essential imports through a fund. It is imperative to explore bridging finance options to seek bilateral and multilateral assistance or negotiate credit lines for the procurement of essentials. Discussions with the World Bank, the Asian Development Bank, the Asian Infrastructure Investment Bank, and the Government to Government (G-to-G) bilateral negotiations are currently underway. In relation to long-standing structural issues, Sri Lanka has been experiencing persistent external current account deficits mainly driven by large deficits in the merchandise trade account and primary income account over the past decades. Although the trade-in services account and secondary income account, which comprises workers' remittances, recorded surpluses, these surpluses were not adequate to cushion the impact of merchandise trade and primary income account deficits on the external current account. Therefore, any effort in addressing the current account deficit should be focused on strategies in reducing the trade deficit while increasing services exports.

“ SRI LANKA REACHED A STAFF-LEVEL AGREEMENT IN EARLY SEPTEMBER 2022 WITH THE IMF FOR AN ECONOMIC ADJUSTMENT PROGRAM UNDER THE EFF OF ABOUT US DOLLARS 2.9 BILLION. THE STAFF-LEVEL AGREEMENT IS SUBJECT TO THE APPROVAL BY THE EXECUTIVE BOARD OF IMF IN THE PERIOD AHEAD, CONTINGENT ON THE IMPLEMENTATION BY THE AUTHORITIES OF PRIOR ACTIONS, AND ON RECEIVING FINANCING ASSURANCES FROM SRI LANKA’S OFFICIAL CREDITORS. THEREFORE, ALL EFFORTS NEED TO BE IN PLACE TO COMPLETE THIS PROCESS AT THE EARLIEST, AS IT WOULD PROVIDE THE MUCH-NEEDED CONFIDENCE FOR INVESTORS AND FOREX EARNERS TO REMIT FUNDS TO SRI LANKA ”

Therefore, measures should be taken to increase the earnings from merchandise exports, while continuing with measures of curtailing non-essential imports. Product diversification through vertical and horizontal integration, participation in product sharing networks and global value chains through component manufacturing as well as reducing the over-reliance on a few advanced markets as export destinations by exploring new markets could be considered as initiatives to enhance export earnings over the medium term.

In addition, Sri Lanka has not been able to attract non-debt-creating foreign financial flows, such as FDI up to the expected levels as well as compared to regional peers, even during the post-war period, due to structural and policy issues related to FDI. The prevailing weak investment climate in Sri Lanka can be attributed to a range of factors including policy uncertainty, restrictive labor regulations, lack of progress in ease of doing business, inconsistencies in the protection of property rights, further room for strengthening law and order, bureaucratic delays and inefficiencies, and so forth. It is

imperative to address these issues expeditiously to attract substantial levels of FDI in productive and tradable sectors over the medium term.

According to your point of view, who are the key stakeholders who should come forward to play a major part in this rebuilding stage?

In the near-term economic stabilization stage, support from the multilateral development banks (MDBs) is part and parcel. Once the stabilization is ensured, all efforts need to be driven toward rebuilding the economy on a sustainable footing. Rebuilding the economy through overcoming current economic woes and distresses requires substantial and concerted efforts from all stakeholders of the economy including the Government and policymakers, regulatory bodies, government authorities, financial institutions, corporates, industrialists, small and medium-scale enterprises, and as well as the general public. Policymakers’ unwavering commitment to implementing consistent policy reforms in a

timely, holistic, and efficacious manner is imperative to ensure recovery from the economic slowdown. Further, to address the rooted structural issues, offer essential support to the general public, and move toward sustained stability, the cooperation of the government institutions during the arduous transition process will also be required.

The commitment of the industrialists to move towards high-value-added products and targeting their products on the export market to enable transform transformation of the economy into an export-oriented manufacturing economy focusing on the use of local raw materials will be vital for the recovery of the external sector and to strengthen and improve the resilience of the economy.

Further, active engagement, participation, awareness, and forbearance of the general public as well as all other economic stakeholders, micro and macro alike, are imperative to undertake long overdue reforms, which will be critical to ensure that the country not only recovers from the ongoing crisis but also to prevent any similar crises in the period ahead and progress towards growth in the medium to long term. The crisis, however, is an opportunity to implement long-outstanding structural reforms. Some of the difficult reforms, such as tax reforms and SOE reforms, have already been initiated in the past several months. It is important to continue these initiatives with the support from all stakeholders having a continuous dialogue among them to ensure the sustainability of such actions.

**By Isuri Caldera and
Narmada Balasuriya**

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ALL HOPE IS NOT LOST: RESURGENCE OF A FORMIDABLE ECONOMY



MR HESHANA KURUPPU

GROUP CFO OF DAVID PIERIS GROUP OF COMPANIES

Mr. Heshana Kuruppu is a renowned professional in the Sri Lankan corporate landscape, whose expertise has been a key factor in the development of various organizations in the country. Mr. Kuruppu earned his primary degree, BSc in Accounting from the University of Sri Jayewardanepura. He holds a Master's in Financial Economics from the University of Colombo as well as a Master's in Business Administration from the Postgraduate Institute of Management. He is a Fellow Chartered Accountant of ICASL. Mr. Kuruppu started his career as a Management

Pillar Head-Curriculum Development Project and went on to hold numerous designations over the years. He was the Chairman of a few key organizations in the country including the National Conference Committee, School of Accounting Business, and Annual Report Committee. From 1999 to 2003 he was an Audit Supervisor- at KMPG before moving on to become the Group CFO at First Capital Group. Having worked as the General Manager at MAS Holdings, He is currently working as the Group CFO of David Pieris Group. Taking a break from his busy schedule, Mr. Kuruppu joined us to share his thoughts on how our country could recover from the economic hardships that we are experiencing at the moment.



As a pioneering business personality in the country, what is your personal view on the current economic status in the country?

I think we all know the current situation, where we are today as a country, and how it has unfolded since March 2022. In the context of the current situation, I will take you through a few economic indicators to determine where we are today in terms of inflation. It is about 42% annual average inflation. Basically, from last October to this October, it has been around 66%. We also know that the forecast for GDP is a negative growth as of now, and I think the quarterly figure shows an 8% negative GDP growth. In terms of the financial system and monetary side, the banking system and lending have been curtailed

“ BASICALLY, FROM LAST OCTOBER TO THIS OCTOBER, IT HAS BEEN AROUND 66%. WE ALSO KNOW THAT THE FORECAST FOR GDP IS A NEGATIVE GROWTH AS OF NOW, AND I THINK THE QUARTERLY FIGURE SHOWS AN 8% NEGATIVE GDP GROWTH. IN TERMS OF THE FINANCIAL SYSTEM AND MONETARY SIDE, THE BANKING SYSTEM AND LENDING HAVE BEEN CURTAILED BECAUSE OF THE RATES. THIS HAPPENS BECAUSE OF THE RISK-FREE TREASURY BILL RATE AND EVEN THE LAST AUCTION WAS AROUND 29% TO 30% ”

because of the rates. This happens because of the risk-free treasury bill rate and even the last auction was around 29% to 30%. So prime lending rate is around 27% and that is for prime customers. Private sector credit growth has declined. Adding to that we recently observed, some of the policies that the government implemented concerning the budget deficit have also created several issues. If you take a look at the budget for 2023, there are so much of taxes implemented. Last year's budget deficit was around 12% and to arrest the situation, corporate taxes' current level of 24% is raised up to 30%. This is irrespective of whether you are an exporter or a domestic supplier. So, across the board, the majority of businesses will have over 30% of the tax regime. Even personal taxes are going up from 18% to as high as



“ OVERALL, IF I CONCLUDE, I THINK WITH ALL THESE INDICATIONS WE ARE GOING TO HAVE A NEGATIVE AND CONTRACTED ECONOMY WITH A PROLONGED DECREASE IN PRIVATE INVESTMENTS, CONSUMER SPENDING, AND DISPOSABLE INCOMES ”

income of customers will also come down, so they will reduce their consumption so overall that contraction will continue. That is precisely why the government is also expecting to have negative GDP growth.

Looking at the foreign reserves and foreign exchange side, one positive remark is that we have been able to maintain the same level of trade exports. Nevertheless, there are some groups in remittances and then we are still struggling to get our at least three months' equivalent and import as a reserve. I think the rule of thumb is for a country to be stable; you need three months equivalent import to be covered with your foreign resources and we have not been able to maintain it over the last 8 to 12 months. So that is the challenge we have at the moment, and it is also the reason why all the import restrictions have also been imposed. Overall, if I conclude, I think with all these indications we are going to have a negative and contracted economy with a prolonged decrease in private investments, consumer spending, and disposable incomes.

You mentioned that there will be a continued decline in private investment. What do you think would be good measurements and different mechanisms that we can implement to improve or rather attract foreign direct investments?

Yes. Some prerequisites are needed for foreign direct investments. For instance, if you look at countries like Vietnam or India, they have so many foreign direct investments. Recently, I came across very interesting information on foreign

30% to 36% levels. These indicators provide a clear image of the economic situation of the country now. When credit is not available or credit is not reachable, the private sector will have less investment,

restricting any form of business expansion. It can already be seen that businesses are shrinking, and the demand is decreasing with the tax increases. It will further come down, because the disposable



direct investment. Let me share it with you. So, this is about actual trade goods exports by Sri Lanka versus Vietnam in 1995. Sri Lanka's exports were 4 billion dollars in 1995, while Vietnam's was 5 billion dollars. In 2020, Sri Lanka recorded 10 billion in exports. What do you think about Vietnam? Vietnam has gone up to 283 billion dollars.

Vietnam achieved this by creating a climate for industrialization and foreign indirect investments to come in. As I mentioned, there are some prerequisites that a country requires to welcome foreign direct investments. Proper infrastructure needs to be there to facilitate the businesses. Countries like India, and Bangladesh are preferred by foreign indirect investments because such countries have a market in the country itself. The country itself has a sizable market, which is another factor that may affect in favor of some of the countries.

In addition, what the investors would look for the most is the cost factor, which includes land cost and labor cost. Sri Lanka as a nation, I think that our labor cost is

“ THE EASE OF DOING BUSINESS AND ACCORDING TO THE WORLD BANK INDEX SRI LANKA IS CURRENTLY RANKED IN THE 99TH PLACE, WHEREAS OUR NEIGHBORING COUNTRY, INDIA WITH SUCH A LARGE POPULATION, HAS PLACED ITSELF IN THE 63RD PLACE. SINGAPORE IS IN THE 2ND, AND NEW ZEALAND IS IN THE 1ST. HOWEVER, 99TH PLACE IS AROUND THE MID-LEVEL OUT OF 180 COUNTRIES, WHICH IS A CONSIDERABLY GOOD PLACEMENT ”

not going to be competitive anymore. Because when lifestyle changes happen such as when countries start moving towards a low income your labor cost also goes up. So, factor cost, if you look at it in terms of labor, may not be working in favor of Sri Lanka. Some countries look for fiscal incentives like tax transition, tax cuts, or extensions. So, as you know, Sri Lanka did it the other way. Though we had the regime of fiscal incentives, it has not led to

increasing foreign direct investments. Another factor is that people will look for this business investment climate, in terms of consistency in policies, political stability, general public, and social unrests, and all these will be evaluated.

Further, trade barriers and openness, availability of open trade policy and barriers, tariffs, and non-competitive regulations prevailing in the country are also taken into consideration. In addition to some of these main measures I mentioned, the ease of doing business and according to the World Bank index Sri Lanka is currently ranked in the 99th place, whereas our neighboring country, India with such a large population, has placed itself in the 63rd place. Singapore is in the 2nd, and New Zealand is in the 1st. However, 99th place is around the mid-level out of 180 countries, which is a considerably good placement. So, what makes us difficult is that apart from the factors I mentioned, the business climate is not conducive. Therefore, in terms of ease of doing business, our ranking is not that great. So, we need to see how far



we can do some of these initiatives to increase the convenience of doing business.

In some criteria, we have low marks such as high tax rates, especially in the current context. Further, the banking system also needs to concentrate on different areas. One is getting credit, access to credit and collaterals that they are looking at are sometimes not supportive, but detrimental to the business. All property-related matters such as owning property, transfer of property, and credentials of a property will also have to improve.

Those are some of the areas we need to concentrate on in addition to enforcing the contract, because you know that there are so many delays in the legal system. Sometimes commercial quotes are

not sufficient, disputes take months to get resolved. Foreign investors look for these things before they invest in any business. In my view, first we should have some level of political stability and the policy framework in place, and in addition to that operational level ease of doing business is vital. As mentioned, we have been ranked low, and thus need an increase for us to get to the next level of investment, because giving tax holidays alone will not be sufficient. It is only one incentive, because a few others might create higher costs. For instance, if one delays approval or starts a business, and if it takes 2 months for the approval process, then the whole project might not be viable, because you are spending half a year to get the business set up. These things need to be improved if we are to move forward. We have

discussed things and we have heard them too, but reforms need to happen very soon. Therefore, for us to increase our foreign direct investments these initiatives need to be done, ideally should have happened yesterday, but at least it needs to happen now.

What do you think we can do to improve our foreign earnings? Because as we know, we do not earn foreign revenues as much as we would like to have. We also have very limited sources of foreign income. What do you think can be done to improve foreign revenue earnings?

Yes, as I mentioned earlier, our trade exports in 1995 were 4 billion and we have been able to double it only after 17 years. So, one area we have to see is how we increase our 10 billion goods trade account related exports increase because currently it is limited to mainly garment sector 5 billion dollars revenue annually, then tea another 1 billion.

Altogether, it is a handful of three to four major agriculture and industries in relation to garment are the key areas in terms of goods that we have contributed to this 10 billion. So, I think, for us to increase it from this level, I do not think the apparel industry alone will be able

to support that kind of growth. So, we will have to see how we get the high-end technology-related investments coming into this country, and they set up because we have a well-skilled labor force, so strategize that in a way where those people understand Sri Lanka as a country with the ease of doing business and having high skilled labor so that that's one way to look at it. Similarly, our next growth story is just 2 hours away, that is India. As you know, India is currently the fifth-largest economy in the world. I think as per the growth forecast, they expect to reach third place by 2030. The 3 large economies in the world are going to be the USA, China, and India in another 7 years. At this point, it is a 3.5 trillion USD economy, whereas ours' is around 78-to-80-billion-USD economy, so there is a proximity advantage. There may be businesses that are willing to set up here in Sri Lanka, and serve the Indian market, then set themselves up in India. So, those are the opportunities I think we need to look for to increase our trade account and even get some of the high technology-related products and get them set up here. So, we may be able to offer some concessions, and from here to India. The service sector foreign earnings are also a major contribution. Currently, our IT BPO sector is doing relatively well. Slashcom, the IT BPO sector's policy body, expects the IT BPO sector to contribute around 5 billion USD in 2025. I am certain that the sector will start generating this benefit, as they are already working towards it. However, the government also can provide more facilities in terms of infrastructure, with no disruption in the electric power supply, because those are critical things for industry.

Tourism is another important sector in this regard. As we all know, tourism in the country was



badly affected after the 2019 Easter attack and has been continuously declining in later years. However, looking at the current trends, I am sure that we should be able to achieve successful growth. The highest number we have seen so far was in 2018, around 2.3 million tourists came to Sri Lanka, and we generated 4.4 billion USD in that year. As of this year, I think it has been around five hundred thousand tourists, and only 1 billion in revenue. So hopefully, next year we can have 2 to 3 million or more tourist arrivals and reach 4 billion. Then we would have a significant impact on our balance of payment in 2023.

Then we can turn to remittances. I think remittances in 2020 were around 7 billion USD and it was 25 billion USD in 2021 and in 2022, it is expected to be around 3.5 billion USD. So, compared to 2020, it is

only 50% remittances this year. We have to look into ways to increase that figure back to 7 billion. That is another inflow, I think we have to get going. Sometimes it may go up even, because there is always talk in the market about brain drain and talent leaving the country. On the one hand, it is a disadvantage to the local economy, because you need that productive talent to continue the local business. On the other hand, if they move out and spend money, it will serve some different positive purposes. Therefore, what I like to highlight is that the majority of migrant workers, according to the foreign bureau around 51%, are unskilled. We need to change that composition, which I think is not a difficult task.

We have around 1.5 million migrant workers and even with the previously mentioned composition,



when you take the average per person, the contribution per month is roughly around \$330. The challenge, I think is that we will have to take how to change this composition from unskilled to skilled, and the increase is \$330 to \$600, for example. When you do that, assuming the same level of people are working, 7 billion automatically goes up to 14 billion.

This is where our greater education, our internal university system needs to come in. How we cater to that world market where there is skill demand is the question that needs to be answered. So, as you know, accountants, nurses, masons, carpenters, and many other skilled professionals are demanded in a lot of European countries, even in New Zealand and Australia, and many other parts of the world. Similarly nurses other skill jobs masons, and carpenters. This is an important strategy we can implement, so we need to work quickly to change and advance our internal education system from A/L itself directing the students towards the demanded subject fields. If we can focus on that, I think within 3 to 5 years this much-needed trend can be established. So, these are some of the strategies and areas that can be developed and implemented to improve foreign revenue earnings.

Who do you think are the key stakeholders that should come forward and play a major role in this rebuilding stage?

Yeah, I think. I would like to name several parties. The first part is political leadership. Because right now Sri Lanka is so divided, and the political ideologies are so engrossed among the public. So, we tend to believe what the party politicians tell us, especially when it comes to more than the middle class, the rural sector from generation to generation they are attached to a party, so that leads to a different scenario, where you don't look at what is right or wrong but solely what the party politician says. Therefore, I think our political leadership needs to come to a consensus and an understanding. For instance, let's say that the current party fails, then the opposition must take over but still, the issues remain without being resolved. Still, they are facing the same issue. Taking a momentarily political advantage and hiding the issue and saying something different will only prolong the issue. So, I think that the first thing is all parties need to get together. For that, civil society also has a role to play as well as professional

organizations and other similar responsible agencies.

Everyone needs to push the political parties to say that they do not take mileage out of the situation and criticize everything openly look at it because first, we need to stabilize the country before fulfilling political agendas. If you try to bring in your political ideology and take advantage of the situation it doesn't work in favor of the country. We have seen that happening over and over again, where an individual is in a position, they oppose but once they come into power they do the same thing, then become unpopular, get thrown out and the cycle goes on. People continue to suffer through this, as we already witnessed this in March, April, and May last year. Hence, political leadership needs to understand. They need to come together, and then, genuinely feel for the country keeping the political agenda aside. Having said that I don't know whether our politicians are mature enough, because I don't think the majority are having the intellectual capacity to even understand the real issue, so they may look at it on the surface and try to drive their agendas.

The second point is trade unions. I think there is a very important role

“ I WOULD LIKE TO NAME SEVERAL PARTIES. THE FIRST PART IS POLITICAL LEADERSHIP. BECAUSE RIGHT NOW SRI LANKA IS SO DIVIDED, AND THE POLITICAL IDEOLOGIES ARE SO ENGROSSED AMONG THE PUBLIC. SO, WE TEND TO BELIEVE WHAT THE PARTY POLITICIANS TELL US, ESPECIALLY WHEN IT COMES TO MORE THAN THE MIDDLE CLASS, THE RURAL SECTOR FROM GENERATION TO GENERATION THEY ARE ATTACHED TO A PARTY, SO THAT LEADS TO A DIFFERENT SCENARIO, WHERE YOU DON'T LOOK AT WHAT IS RIGHT OR WRONG BUT SOLELY WHAT THE PARTY POLITICIAN SAYS. THEREFORE, I THINK OUR POLITICAL LEADERSHIP NEEDS TO COME TO A CONSENSUS AND AN UNDERSTANDING ”

that they have to play, especially when we are talking about reforms. Reform means changing to the current status, so sometimes it could be privatization. Sometimes it would be a reduction in the number of people, so there will be hard calls that the governments may have to take. The issue is all the time what we have seen is that the trade unions then collide or come together more than national interest, they to safeguard some political party interest, or their job interest so that doesn't work favorably. This again goes back to how the political leadership needs to come in and create that idea for the laborers and trade unions to say this has nothing to do with your jobs, this is about our country and the country's future.

Before even having that negotiation, people come onto the street, that's what we see now. So, I think great unions also will have to work more responsibly and the general public at large has a

responsibility. I think there is a certain level of understanding because if you remember, 2 or 3 years ago I don't think you would have been able to adjust cost-based pricing even a five rupee price increase per petrol liter was a talking point at the time. Now you see that adjustment is happening. So, in a way, you can say that the general public has some level of understanding, but politicians should play their role to expand that understanding rather than ruining it and dividing people. So, all the political parties have an equal role to play so the general public and civil society need to be the pressure group that urges the politicians to take necessary actions.

My next question to you is this; in terms of readjusting what do you think of the challenges the private

organizations would face? As you mentioned earlier, the Government might have to take hard calls, and I think because of that even the private sector organizations are being forced to take certain difficult decisions. What do the hardships that they would have to face in this process?

I think the private sector is more than willing to take hard calls because sometimes due to the circumstances, they have no choice. For instance, let's say, most SMEs cooperate, and companies have a lever balance sheet, and their main funding source is bank borrowings because they don't have much equity capital. So, at this moment if someone was having working capital funding, I don't think any business can give you a 30% return because when you have 30% cost of borrowing obviously when you have a levered balance sheet, let's say 60-40% debt-equity or 80-20% debt equity, you are having a clear loss. So, for how long you can continue that loss, and how resilient you are is a question. Sometimes these SMEs will be forced to close or downsize. That is the main challenge I think they are going to encounter with the situation and the interest rates are not going to come down quickly. I think we are already seeing that pressure. The banks and the government have to do something urgently to reduce this high interest rate. We will have to do something quickly to reduce that interest rate. I am hopeful that if and when the IMF facility an announcement in January, there'll be some reduction in the rates but until such a time, there is this

“ IF THE GOVERNMENT IS ALSO COMING UP WITH AD HOC DECISIONS I AM SURE THE REMAINING BUSINESS IS ALSO IN COLLAPSE. LET'S IMAGINE IF SUDDENLY THEY DECIDE TO FLOAT THE DOLLAR AND ALLOW IT TO GO UP TO 400. THAT WILL BE THE END OF IT BECAUSE PEOPLE GET ADJUSTED AND NOW SOMEHOW TRY TO BE RESILIENT AND SAIL THROUGH THIS PERIOD, BUT ANOTHER SHOCK WILL BE VERY DIFFICULT TO ABSORB. BUSINESSES WILL NOT WANT TO FACE SUCH SITUATIONS GIVEN THE DIFFICULTIES THEY ARE ALREADY FACING. ACCORDING TO MY OPINION, THESE ARE SOME OF THE MAJOR CHALLENGES THE BUSINESS HAS IN FRONT OF THEM AT THIS POINT ”

struggle that businesses have to go through.

Then, another key challenge is the retention of talent. Even our group, or any other group at this moment, is facing the situation, as I mentioned before. Skilled and experienced professionals are leaving their jobs and leaving sometimes the country. It is a key issue during this period that most businesses are facing right now. In addition, due to this 42% average inflation, material, and other input costs are rapidly rising. Further, sometimes it is not possible to increase the prices considering the extent of input cost. This erodes the established margins.

Also, as a result of the rapidly growing cost of living, now there will be pressure to increase salaries as well, creating another major challenge for businesses. Moreover, due to some of these tax changes and inflation people are going to have a low, disposable income and they cut down their consumption. When you cut down consumption the demand for production services comes down. It directly affects the corporation. I think this also causes a major challenge to the business.

On top of all this, if the government is also coming up with ad hoc decisions I am sure the remaining business is also in collapse. Let's imagine if suddenly they decide to float the dollar and allow it to go up to 400. That will be the end of it because people get adjusted and now somehow try to be resilient and sail through this period, but another shock will be very difficult to absorb. Businesses will not want to face such situations given the difficulties they are already facing. According to my opinion, these are some of the major challenges the business has in front of them at this point.

As you mentioned, it is a difficult time for businesses and individuals alike. How has your organization attempted to safeguard your employees during this crisis?

The core products of our organization are import-related. If you look at it now, over the last 8, and 9 months, as well as during the pandemic, import businesses have been limited. But even without those businesses not being there we have not reduced any benefit given to the

employees. We also offered, I think, one of the highest rewards, like a bonus to our employees based on their performance. We continue to engage our employees in terms of training, and different engagement activities conducted by HR. For example, last week we had training for our employees on managing personal finance. As you know, when you have a disposable income issue, your inflation is high, and you have to borrow. Sometimes you get into different issues. So, how do we avoid such issues? How do we not get into a debt trap? So those are some of the things that we do to protect the interest of our employees by offering a certain level of flexibility. So, we consider those things we are doing to protect and safeguard the employees' interest.

By Tharani Sooriyaarchchi & Jinandi Patabandi

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THE WAY FORWARD; A PERSPECTIVE FROM THE TEXTILE INDUSTRY



MR. SANJAYA BASNAYAKE

CHIEF OPERATING OFFICER
TEEJAY LANKA PLC

What is your overview of the current state of the Sri Lankan Economy?

It is unfortunate to realize that the nation is finding great difficulty in addressing the debt crisis that has plagued Sri Lanka in recent times.

Certain efforts are in progress by relevant authorities to restructure the country's debt with the assistance of international organisations. However, we must ask ourselves whether if it is a little bit too late, or if there is more that can be done given the severity of the

“ THE RESULTANT CHANGE HAS LED EVERY INDIVIDUAL, INDUSTRY, AND SECTOR REGARDLESS OF SCALE AND SIZE TO FACE THE BRUNT OF THE PRESSURES. THE LACK OF CONTROL ON THE PRESSURES IMPOSED ON THE ECONOMY HAS LED TO A CONCERNING DILEMMA, AND THAT IS THE WORSENING OF THE QUALITY OF LIFE DUE TO THE INCREASED COST OF LIVING ”

circumstances. It is beyond doubt, a tedious process.

Comparing our present status to that of a few years in the past, it is evident that the tax burden has increased by a significant proportion. The resultant change has led every individual, industry, and sector regardless of scale and size to face the brunt of the pressures. The lack of control on

the pressures imposed on the economy has led to a concerning dilemma, and that is the worsening of the quality of life due to the increased cost of living. Deduct loan repayments, settlement of bills, and payments made on general household utilities and necessities, a common man would be left with an insufficient amount of income to spend on his or her own

personal indulgence or entertainment. On certain occasions, certain families might even find it difficult to settle the mentioned expenditure due to the lack of increase in their income to coincide with the rising cost of living.

Despite being aware of the harmful effect of uncontrollably obtaining loans on a nation's credit rating, countries yet continue to follow the practice behind the guise of 'developmental purposes'. It is prudent to comprehend that a proper repayment strategy need to be put in place prior to seeking out loans, regardless of the intended purpose of obtaining said loan. The lack of such a strategy has been Sri Lanka's bane in this particular instance, in my opinion.

Sri Lanka would have been able to strategically utilize the borrowings, invest in lucrative ventures, and thus generate either direct or indirect income that can be shared equally

“
 SRI LANKA WOULD HAVE BEEN ABLE TO STRATEGICALLY UTILIZE THE BORROWINGS, INVEST IN LUCRATIVE VENTURES, AND THUS GENERATE EITHER DIRECT OR INDIRECT INCOME THAT CAN BE SHARED EQUALLY AMONGST PEOPLE, INDUSTRIES WHILST EVEN SETTLING PORTIONS OF THE OBTAINED LOANS AT CONSISTENT INTERVALS
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amongst people, industries whilst even settling portions of the obtained loans at consistent intervals. Unfortunately, as a nation we haven't seen a proper solid policy or mechanism in selecting and prioritizing

lucrative projects that derive optimal return on investments. The inability to create opportunities to generate income through said projects hinder the progress of the country.

The high inflation rate in Sri Lanka at present has significantly impacted the middle and low-income earning classes.

From an industrial perspective, a considerable amount of new investment projects especially targeting business expansions have been put on hiatus due to unfavourable situation of the country. Thus, it is fair to assume that there is a significant threat





“ THE YOUTH IS THE FUTURE OF THE COUNTRY, AND BUILDING SKILLS AND COMPETENCIES ALONE IS INSUFFICIENT; THEREFORE, SRI LANKA REQUIRES A SOLID PLAN FOR EDUCATION, RESEARCH & DEVELOPMENT TO BUILD THE YOUTH ”

of witnessing shrinkage in certain industries in the near future. This majorly affects the SME & start-up businesses in the country.

As far as you think, what are the main factors contributing to the current crisis and the resultant hardships?

A considerable amount of burning questions need to be answered if we are to move forward as a county. First and foremost, we need to establish a solid plan.

Long-term development

strategies and a national policy are the need for the hour. The introduced strategies should remain unchanged despite changes of governments.. The best interest of the nation should supersede individual biases and self-interests. Sri Lanka should take a page out of the books of developed countries where strategies, plans & proper systems require an overwhelming mandate to overturn or change. Sri Lanka should look at executing these projects with the assistance of experts that have hands-on exposure in the trade, equipped with sound knowledge.

Currently, Sri Lanka is following a myopic approach where there is a significant gap in long-term orientation. The lack of stability in terms of economic, political, and social facets hinder the nation’s attractiveness as an investment destination. The tradition has been to spread smiles amongst communities with promises of non-productive short-term fixes to long-term problems.

The youth is the future of the country, and building skills and competencies alone is insufficient; therefore, Sri Lanka requires a solid plan for education, research & development to build the youth. They need to be educated on the ways of challenging the status quo, question impractical policy decisions, and to productively contribute towards the development of the country. Additionally, a plan to improve local industries and agriculture need to be established. All the above mentioned criteria can be



met once the nation establishes a proper control mechanism.

In your opinion, what are the different mechanisms that can be implemented to attract FDIs?

What is the purpose of moving investments away from a person’s country of origin? The answer, simply put, is the return on investment that the investor’s country of origin fails to provide.

Ease of doing business is a significant factor that investors consider before making an investment decision. South Asian countries including Sri Lanka were once believed to yield similar growth potential. However, if we consider the growth trends, countries that have begun their development processes after us have now expanded their GDPs, surpassing that of Sri Lanka by a significant

margin. The aspect that said countries have done right, and what we have failed to achieve successfully, is the approach adapted to attract FDIs.

Sri Lanka has a significant amount of obstacles and barriers that as a nation should overcome if they are to invest in local projects. The approval process to initiate a project can be tiresome. Restrictions in gathering necessary information to launch projects are concerning. The absence of an established governance system that protects the country’s investments is the primary pitfall that has plagued Sri Lanka. The business environment of a country requires a hospitable and sustainable macro environment, if it is to thrive and prosper.

The quality of the labour force is another aspect that needs immediate attention. Investors prefer to approach nations

similar to Sri Lanka due to their ability to source a quality workforce enriched with sound technical knowledge & highly competent skilled labour force with compared to countries like Bangladesh, India & Vietnam. As such, it is prudent to believe that Sri Lanka has never lacked in terms of job opportunities, the pitfall that hinders progress is the country’s inability to capitalize on the wealth of human capital available in the labour pool. Additionally, Sri Lanka offers a higher standard of compliances in doing businesses ethically.

Another related concern is the unrest amongst the workforce. Investors prefer not to risk facing backlash by investing in nations that are prone for employee uprisings and strikes, practices that have brought popularity to Sri Lanka in the past few months. Apart from the minor blemishes experienced during said months,



Sri Lanka is typically not known for consistent labourer unrest. Identifying this opportunity, actions need to be taken to strengthen the governance and policy implementation and look towards increasing the nation's foreign direct investments and joint ventures.

In your opinion, what are the measures that can be taken to improve the foreign earnings?

Apart from FDIs, a few main sources of income for developed countries can be cited as technology and education.

A considerable amount of Asian students travel overseas to pursue their higher education, leading towards a significant outflow of domestic currency. Instead of subjecting our students to depend on overseas education, we can take the initiative to improve the education infrastructure of the country, making it conducive for foreign universities to approach Sri Lanka and establish branches of their reputed universities in the country. In such a scenario, Sri Lanka can become a hub for education for South Asian students, providing learning opportunities for students from countries such as Maldives, Bangladesh, and even Vietnam.

Efforts to accomplish this dream have been launched sparingly in the past, but each effort was met with roadblocks, primarily the lack of proper infrastructure to accommodate the initiatives. An adequate learning environment need to be established, with the necessary facilities provided, if we are to attract foreign students. As an example, universities in Singapore has hired competent resources to deliver certain resources in the education field to aid specially with the research & development areas which ultimately helped to uplift the standards of the education to the current standard.

Another area that Sri Lanka can capitalize on is the healthcare sector. The nation is fortunate to have produced a pool of capable doctors and healthcare professionals. Establishing hospitals that are equipped with cutting edge technologies and facilities will brand Sri Lanka as a nation that provides exceptional healthcare services for a reasonable charge. Considering the fact that healthcare is relatively expensive in developed nations, access to good healthcare facilities at a cheaper price can be viewed as an opportunity.

The establishment of IT parks is another option that should be



considered. Sri Lanka has shown excellent credentials in terms of IT; even to the extent of being able to challenge India, a country that is stereotypically known to produce IT geniuses. Sri Lanka does have some IT parks in operation at present. However, the availability of a labour pool to keep the ball rolling is a gap that needs to be filled. Sri Lanka should look to invite external parties to come and work in these parks in order to fill in that void.

Proper policies & regulations need to be solidly laid out to assure that the offering local jobs to foreigners make our own inhouse talent and professionals

lose out on opportunities. Whilst this holds true for certain industry, the same thought process does not apply for industries that does not have a sufficient workforce to fill in the labour requirement. Here, it is beneficial to bring in foreign expertise to fill in the gaps that are left in certain fields, if smooth operations are to ensue.

Measures need to be taken to absorb youth into the workforce immediately following the completion of their Advanced Level examinations. A lucky few gain the opportunity to enter into the state university system, while the remainder is left to pursue private modes of higher education. It is an option that many cannot afford. A solution for the problem is twofold; give a proper training to the youth and absorb them directly into the

workforce or establish more universities in the nation that have significant lenient entry requirements thus making higher education accessible to a more wider audience. For instance, a Sri Lanka born student that has studied only up to advanced level was recognised as a best employee in Korea for the year 2021. The rewards reaped by Korea due to the contribution of said employee could have been entitled to Sri Lanka if adequate steps were taken to nurture and mentor the employee under consideration. Doing so will protect the youth's right to higher education whilst contributing towards the prevention of skilled labour migration.

Developing the tourism industry is another topic that needs to be addressed. Sri Lanka has never

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“ PROPER POLICIES & REGULATIONS NEED TO BE SOLIDLY LAID OUT TO ASSURE THAT THE OFFERING LOCAL JOBS TO FOREIGNERS MAKE OUR OWN IN HOUSE TALENT AND PROFESSIONALS LOSE OUT ON OPPORTUNITIES ”

lacked the natural resources and the opportunity to boast about a thriving tourism industry. Although, the incapability to capitalize on the opportunities and resources hindered us from achieving our full potential. Sri Lanka needs to learn on the proper way of marketing and branding our natural resources and scenic destinations.

Sri Lanka should look to capitalize on its countless of available natural resources. At present, Sri Lanka is in the trade of selling raw materials to developed countries to be converted into the final end product. Instead, with proper investment of technologies, we can accomplish the same objective within the country itself. For instance, graphite can be converted into graphene. &

more income for 10 times higher.

According to your point of view, who are the key stakeholders who should come forward to play a major part in this rebuilding stage?

The existing status quo and system is in need of a dire change. Banking on the same option while expecting a different outcome, especially when the said option has made repetitive blunders, is not wise from the perspective of the general public. A batch of fresh graduates, brimming with fresh potential and new mind-sets, pass out from the university system on an annual basis. It is the opportune time to create a pathway for these graduates to take up leadership

roles, hone their skills and expertise, and eventually take up the challenge of driving the country towards a better and brighter future. The nation is direly in need of fresh new visionary leaders.

Leaders can even emerge from existing business communities. Teejay has remained successful due to their ability to circumvent challenges and capitalize on opportunities. Such leadership is required to drive the nation forward amidst turbulence.

What sorts of challenges are faced by the organizations in the process of bringing back business and economic normalcy?

If we are to select a random youth from a large crowd at random intervals and raise the question “what would you like to do in your future?”, more often than not the answer that we receive would be “I would prefer to move out of the country.”

Labour turnover has been a significant challenge to the textile and apparel industry in recent times, especially due to the tendency of employees to travel overseas in search of better opportunities. I have noticed that barring for a few loyal long-term established professionals, a majority of the workforce is keen to seek better prospects away from Sri Lanka.

Textile and apparel companies are finding it difficult to grasp the demand of foreign buyers, mainly aggravated by the intense competition and the depreciation of the local currency. Whilst the currency depreciation came as a blessing for a select few, most Sri Lankan industries are left to bear the burden of being unable to import raw materials due to the change in prices.

“ TEEJAY’S UNORTHODOX WAY OF THINKING HELPED IT TO CONTINUE OPERATIONS WITHOUT OBSTRUCTIONS. IT IS MAINLY DUE TO THE CONTRIBUTION AND COMMITMENT OF THE WORKFORCE, WHOM THE GROUP PROUDLY CONSIDER AS THE TEEJAY FAMILY ”

The opportunity cost, i.e., the forgone orders and business deals that the fabric manufacturers could have executed given that the local currency remained unaffected can be cited as another challenge. A significant amount of corporates are faced with financial difficulties, mainly due to their inability to settle their liabilities.

Building trust is another challenge that needs to be mentioned. With the turbulence, buyers have been reluctant to place orders from fabric manufacturers in Sri Lanka. The reluctance may be due to; concerns pertaining inability to meet delivery times, ability to meet quality expectations, ability to provide a beneficial price for the orders, and so on. Building back the broken trust is a challenging task, and providing reassurance that their expectations will be met is of utmost priority.

What are the measures you have taken to safeguard your employees during the crisis?

Reflecting on the many crises that Sri Lanka has been subject to within the past few years, the COVID-19 pandemic stands out above the rest.

The emergence of the pandemic was completely unexpected. Organizations were completely unprepared to face an epidemic of such caliber. From employees succumbing to the illness and

the loss of orders are only but a few impacts that the industry had to endure. The importing of raw materials had to be halted due to the disruptions in the supply chain.

The management of the Teejay Group understood that an immediate solution is required to address the situation if it is to prevent imminent financial losses. The strategic team of Teejay Lanka understood that there was a demand for medical attire, and as such a change of direction towards catering to said market was orchestrated. The Group continued to invest on machinery, materials, and technology. The decision to sell antibacterial medical materials to the US, UK, and other foreign markets proved to be a lucrative decision. It can be mentioned as a strategy that enabled Teejay to remain afloat during the testing period.

The management further encouraged infected individuals and his or her immediate close circle of colleagues, usually, to remain in quarantine until the threat has subsided. It was the normal process at the time. Subsequently, the Group improved its remote working capabilities thus enabling the staff to work from the comforts of their own homes. For instance, the marketing, merchandising, and finance teams continued to work with the use of online communication platforms such as Zoom and Microsoft Teams in

order to ensure a smooth flow of operations.

Whilst working from home was advantageous for a select cadre, it is imperative to note that the staff within the factory does not have that luxury. The staff working within the factory was divided into four groups; two groups were required to report to work, with accommodations being provided courtesy of Teejay, while the other two groups were requested to remain on standby.

Teejay’s unorthodox way of thinking helped it to continue operations without obstructions. It is mainly due to the contribution and commitment of the workforce, whom the Group proudly consider as the Teejay family. The second level employees were given the authority to take their own decisions, depicting the level of trust placed by the management on their gut instincts. Moreover, the requirement for scanning fingerprints were removed, showcasing the management’s confidence that employees would report to work and clock out of work at the agreed upon times. Additionally, increments were allowed to improve the moral during the global pandemic.

The above mentioned strategies enabled Teejay to rise up from the pandemic that lasted for a period of two years, in my opinion.

By Gayanthi Mendis, Roshni Samarasinghe

RESURGENCE OF THE SRI LANKAN ECONOMY AMIDST THE CHALLENGES

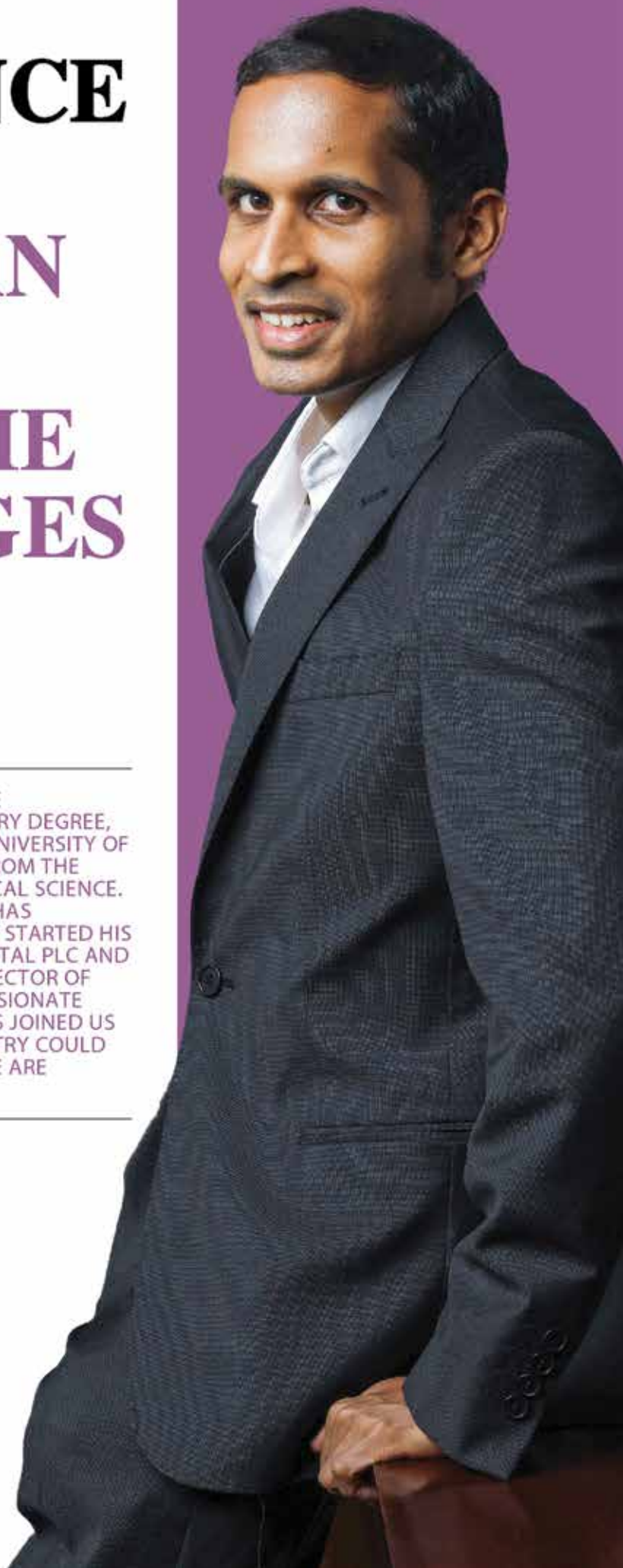
MR. TRAVIS GOMEZ

ASSOCIATE DIRECTOR OF
USABAZE SRI LANKA

MR. TRAVIS GOMEZ, A RENOWNED CORPORATE PERSONALITY IN SRI LANKA EARNED HIS PRIMARY DEGREE, BSC IN ECONOMICS AND FINANCE FROM THE UNIVERSITY OF LONDON. HE HOLDS AN MSC IN ECONOMICS FROM THE LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE. HE IS A CHARTERED FINANCIAL ANALYST AND HAS INDUSTRY EXPERIENCE OF OVER A DECADE. HE STARTED HIS CAREER AS A RESEARCH ANALYST AT ASIA CAPITAL PLC AND IS CURRENTLY SERVING AS THE ASSOCIATE DIRECTOR OF USABAZE SRI LANKA. AS A QUALIFIED AND PASSIONATE ANALYST, AND A RESEARCHER, MR. GOMEZ HAS JOINED US TO SHARE HIS THOUGHTS ON HOW OUR COUNTRY COULD RECOVER FROM THE ECONOMIC HARDSHIPS WE ARE EXPERIENCING NOW.

What is your overview of the current state of the Sri Lankan Economy?

At the moment the current state is that we are facing these multiple challenges. Therefore, if you start from a Macroeconomic level, particularly when it comes to the Forex market, we're going through this Forex crisis. And right now, I think the top-of-the-mind issue is regarding restructuring. How are those negotiations going to





work out, especially with the IMF?

That is one area that we think would be the most critical one in terms of really determining the future confidence in the economy and the future trajectory that the economy can go in. This is a key underlying factor that we need to sort out in terms of those negotiations with the creditors and getting an IMF program in place.

Then, I think the other major challenge we're facing is on the fiscal side, pertaining to the government budget. In my opinion, one of the main factors that prompted this crisis has been the steep drop in the tax base, resulting in the ballooning of the fiscal deficit.

Perhaps right now, given the negotiation that we are undergoing with the IMF as well, one of the key milestones we need to achieve is to try to increase the tax base from what it currently is. A key challenge would be how to operationalize that in terms of tax collection. So

that would be another.

In addition to that, we need to find ways to cut down on expenditure, because you have 2 sides to it. You have the increasing revenue, but also you need to look at the areas that we can try to cut down on the expenditure, and one area the government seems to be looking at is the restructuring of some of those State-owned enterprises.

Those are the big challenges that we are currently facing, and those challenges have unfortunately filtered down to the individual. At the corporate level, it has become evident via the freezes on people's salaries, and we are beginning to see it filtering down at a social level too, and importantly, the significant increase in food prices and inflation in general. That is like the current state that we are dealing with at a company level. I think the main challenge would be how the employees are handling this situation.

As a research organization, we

have these challenges happening at a local level. But the company I am at, Uzabase, we are a global

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company. It's a Japanese-based company. And in Sri Lanka, we one of the leading teams that provides a lot of research for the global organization.

Our performance is very dependent on global factors as well. And right now, it's not just in Sri Lanka. Globally, there are challenges that are taking place. There is a slowdown that is also taking place in Europe, and across the world. So that's another factor that is affecting us as well.

As far as you think, what are the main factors contributing to the current crisis and the resultant hardships?

This kind of crisis is not really something new to Sri Lanka. We have both a fiscal deficit and an external deficit, there is some correction that needs to take place, and usually, that involves going into the IMF.

There are 2 sides that have pushed us to this current situation. So, one is in terms of internal policies. There have been some missteps that happened. So one is, I think, the most critical one in terms of the tax policy.

After this tax thresholds were revised after the tax basis was cut down, that's severely reduced. It's very hard to get them back on it. It's not an ideal sort of situation. One is that significant drop in the tax revenue which then led to a ballooning of that fiscal deficit management that the Government had to take on more they had to go for more money printing or for taking on more external financing.

The other sort of issue, which also has a significant impact in terms of some of the policy measures



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around, for instance, the fertilizer policy which again had a severe impact on the supply side of the economy in terms of food production. Usually, what happens in an economy is when food production is affected, it cascades to the entire economy.

I think the other policy mistake that was made was in terms of the delay in commencing the IMF program. So usually in the past, when such unprecedented financial situations occur, we always go to the IMF. And in time, we'd be able to get the bailout because the benefit of having the IMF on board is that that provides confidence to the external investors, and supplies reassurance in terms of the funding that they provided.

Delays in doing that have really pushed us into this situation, which then resulted in the very significant depreciation of the currency, the interest rates shooting up, and inflation also rising rapidly.

These are some internal reasons, but we also had some external shocks that affected us. You have the Easter Sunday bombings that happened which severely affected the tourism sector and numerous other key sectors, including the property sector. And immediately after that, we also faced the Covid pandemic that we are still dealing with, since 2020. And now we are also currently seeing a global slowdown. This slowdown is going to affect some of our export industries, particularly large garment companies, as key markets like the USA, UK, and Europe are also dealing with this inflationary situation, which will in turn affect us. Therefore, it's a combination of both internal reasons, as well as some shocks, and external shocks that have



“ I THINK MOST COUNTRIES HAVE GONE THROUGH SIMILAR CRISIS SITUATIONS IN THE PAST, AND THE MOST RECENT EXPERIENCE I CAN RECALL IS THE ASIAN FINANCIAL CRISIS. IF WE LOOK AT THE COUNTRIES AFFECTED BY THE ASIAN FINANCIAL CRISIS, IT COULD BE OBSERVED THAT ALMOST ALL AFFECTED COUNTRIES HAVE RECOVERED AND ARE DOING WELL AT PRESENT. THEREFORE, WHAT WE, AS A COUNTRY, NEED TO DO IS TO CONSIDER THIS HARD SITUATION AS A BLESSING IN DISGUISE. WE CAN ACTUALLY CONSIDER THIS TO BE A GOLDEN OPPORTUNITY WE HAVE GOTTEN ONCE IN A LIFETIME TO CORRECT OUR STRUCTURAL WEAKNESSES ”

pushed us to this situation.

In your opinion what are the different mechanisms that can be implemented to attract FDIs?

Attracting FDIs has been critical. That is, I think, a critical thing for Sri Lanka to improve the resilience of the economy because right now, you know the challenge we have is that our economy is not very diverse. It's reliant on a few sectors.

As well as even up-and-coming sectors that we have, like the KPO or the BPO type of operations like

the company. They're very small, all account for a small part of the economy. So, our focus really should be on trying to diversify that, you know, attract, and one way to do that is by attracting FDI's.

There are numerous benefits to bringing in FDIs because this means you're bringing in foreign capital, and with it, foreign expertise. This will help build good networks and partnerships with some global brands and help provide access to those global markets.

I think there are a couple of things that we require to attract

FDI's in order to ensure that we have set things in motion and arranged a conducive space for us to be able to successfully do that.

One is in terms of the ease of doing business because any company is looking to set up here. They need to see how attractive the environment is. There are a couple of different factors they're looking at. So, one is how easy it is to operate in the country if the legal system is stable. Another factor is if there is political stability in the country. Moreover, such investors require the utmost transparency, in all business transactions and dealings.



The above are but some of the factors that a foreign investor would be looking for, in addition, they would also be looking at the various benefits the destination can offer. So, when I say benefits, I think a critical thing is, do we have the necessary human capital to cater to and do we possess workers with the necessary technical skills for the industry in question, can we offer more productivity, or perhaps a better

“ I THINK, THE OTHER AREA WE NEED TO REALLY FOCUS ON, AND WHERE SRI LANKA HAS AN ACTUAL ADVANTAGE, IS THE TOURISM SECTOR, IT'S IMPORTANT TO PROMOTE THE TOURISM SECTOR. ONE IS IN TERMS OF GETTING FOREIGN EARNINGS INTO THE COUNTRY AND GETTING MORE VISIBILITY, AS MORE TOURISTS COME IN. ONCE TOURISTS GO BACK, THEY TALK ABOUT SRI LANKA, WHICH OPENS UP MORE OPPORTUNITIES FOR FDIS TO COME IN AS WELL ”

cost advantage, for instance. Bottom line is, there must be some sort of lucrative and tangible benefit that they need to see by coming here.

That's the kind of thing that we need to look at if you are hoping to attract more FDIs to the country.

In your opinion what are the measures that can be taken to improve foreign earnings?

I think, the other area we need to really focus on, and where Sri Lanka has an actual advantage, is the tourism sector, it's important to promote the tourism sector. One is in terms of getting foreign earnings into the country and getting more visibility, as more tourists come in. Once tourists go back, they talk about Sri Lanka, which opens up more opportunities for FDIs to come in as well. Bringing in more tourists can really be a catalyst for promoting that sort of region and having more regional growth across the country.

If you compare it with other destinations, we may not be the cheapest destination to visit, and

currently given the challenges, it's difficult for us to position ourselves as such, so really, we need to see where and what our strengths are, and what is the main thing we can offer. This can be in terms of the experiences, and the diversity of people and cultures. Either way, we need to come up with some sort of coherent strategy.

According to your point of view, who are the key stakeholders who should come forward to play a major part in this rebuilding stage

I would say it's pretty much all of us. Everyone must be a part of this. However, just to highlight some main groups.

When it comes to dealing with the more macro-related issues because a lot of the problems stem from that in terms of the fiscal side of things, as well as the external debt-related one. So naturally, you need the government and the political system to be involved there.

The most critical aspect is the negotiations with the creditors. To make sure that you can lead

gain an amicable settlement, by maintaining clear communication with the IMF and gaining the advice and support of other people who have experience. There are some objectives that they need to meet, and we need to make sure that we can carry those out in terms of those key reforms that need to be made, in certain sectors. So, we need to make sure that policy consistency is maintained.

Moreover, as we are indeed in a crisis, there are very vulnerable groups that the government needs to provide some support. But it becomes important in this case to identify what sort of support is required, and within what area, sectors and contexts. Furthermore, tough questions like what areas or scope must be reduced or cut down in order to reallocate funds to contexts of necessity, would have to be investigated as well.

Then, I think another key macro concern and key player is the central bank. The banking sector

must certainly be investigated because another worry that is currently at hand is the case of this debt restructuring and the impact it might have on the banking system as a direct result of the IMF negotiations. Such changes might lead to some domestic restructuring as well. Then, as a result, people might be worried about that, as their savings would be affected. The Central Bank and the Government must maintain a clear dialogue and clear communication to ensure the best and most efficient outcome. If they don't, this can potentially boil into another crisis, a banking crisis would certainly worsen the situation, thus, clear and collective communication and decision making is the essence of the time.

To continue with the work we do, and particularly in our case, you know, we must face numerous challenges and require such necessary intervention to support our country, in order to support ourselves. We understand that everyone has these challenges in

terms of power cuts and fuel issues. I mean, there are challenges with running the business. But despite that, we need to find creative ways to overcome this situation.

What sort of challenges are faced by the organizations in the process of bringing back business and economic normalcy

To me, getting back to normal primarily means making sure that you can continue with your business or whatever product or

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THERE IS ONE CHALLENGE ON THE ELECTRICITY SIDE, OR RATHER THE LACK OF IT DURING PEAK WORK HOURS. THE OTHER CHALLENGE, OF COURSE, IS WITH REGARD TO TRANSPORTATION. THE COST HAS INCREASED SIGNIFICANTLY, AND MANY PEOPLE ARE, TRAVELING FROM DISTANT AREAS, SO, IT'S NOT VERY CONVENIENT. MOVING TOWARDS HYBRID WORK CAN BE AN EFFECTIVE SOLUTION, HOWEVER, IT IS IMPORTANT TO BE MINDFUL OF WHEN YOU ARE WORKING REMOTELY THAT A SENSE OF DISCONNECT MAY OCCUR BETWEEN TEAM MEMBERS AND THE ORGANIZATION. THUS, FINDING WAYS TO KEEP THEM INTERACTIVE, COULD BE VIA AN ONLINE BASE OR PLATFORM

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service that you're offering. That continuation is important.

I think going forward, the focus of a lot of businesses should be to make sure that one is particularly paying attention to employees' needs, and this attempt must be transparent so that employees feel and see that their needs are also being met. I think employers need to be a bit more mindful of the challenges that their employees are facing and must find different ways in which they can support them.

I think the other side is ensuring your clients are happy. Making sure that you're serving them in the best possible way, offering excellence and high quality, whilst finding ways to be creative and innovative too. I think it's very important to focus on them as well to make sure that you know you're able to deliver the same level of service, despite the challenges and the rising costs, that retain those customers, because your underlying business mostly depends on them.

What are the measures you have taken to safeguard your employees during the crisis?

One is in terms of the practical chat. So, a couple of measures were taken to deal with some of the practical challenges that the employees are facing, giving them an allowance to pay for their data. and to buy routers and other essentials for online and remote work when required.

There is one challenge on the electricity side, or rather the lack of it during peak work hours. The other challenge, of course, is with regard to transportation. The cost

has increased significantly, and many people are, traveling from distant areas, so, it's not very convenient. Moving towards hybrid work can be an effective solution, however, it is important to be mindful of when you are working remotely that a sense of disconnect may occur between team members and the organization. Thus, finding ways to keep them interactive, could be via an online base or platform.

Then, maybe having some team meetings, online or regular, having regular contact, maintaining one-on-one contact with employees, helps make sure that they are comfortable with their work situation, and aware that they do not need to face any unnecessary stress or pressure. Therefore, I believe, in having at least a hybrid work arrangement, depending on the type of business that you are involved in, of course, can be quite effective. We are fortunate enough to be able to efficiently maneuver such a structure.

Moreover, it is also vital to support staff via various wellness programmes. For instance, one thing that the Uzabase did was to increase medical coverage, by extending it to family members and allocating further benefits under the scheme. Moreover, we also conducted online sessions on wellness and mindfulness.

All this was specifically done, as we understand that people have the potential to be disconnected when working remotely, which can lead to issues you may not be able to directly see.

By Gayan Chandima

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THE MOST DIFFICULT YEAR FOR SRI LANKA'S ECONOMY SINCE INDEPENDENCE WAS IN 2022. THE EASTER SUNDAY ATTACKS IN 2019, THE COVID-19 OUTBREAK AND ITS PROLONGED IMPACT ON MANY SECTORS IN THE WAKE OF IT IN 2020, THE SOCIOECONOMIC AND POLITICAL CRISIS IN 2022 AMID DISASTROUS BALANCE OF PAYMENTS (BOP) IMPERATIVES

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A SURGE INTO THE ECONOMIC CRISIS AND

THE WAY FORWARD

MS. SASHINI GAYANIKA

HEAD OF DEPARTMENT OF ECONOMICS AND DECISION SCIENCES,
FACULTY OF BUSINESS, NSBM GREEN UNIVERSITY

Ms. Sashini Gayanika, Head of Department of Economics and Decision Sciences, Faculty of Business, NSBM Green University graduated with a First Class honors in Business Administration

(Business Economics – special) degree from the faculty of Management Studies and Commerce of University of Sri Jayewardenepura. She completed her Master's degree in economics from the University of Colombo.

She has collective experience of over a decade as an academic and a researcher.

What is your overview of the current state of the Sri Lankan Economy?

Although Sri Lanka has experienced several Balance of Payment crisis situations in the past, at this moment the country is experiencing a unique but

severe “twin-deficit” problem; a liquidity crisis and a solvency crisis which has led Sri Lanka to announce an external debt service suspension and work on debt restructuring. Our current account has been in deficit since 1960 other than 1965 and 1977 with small surpluses. The budget deficit on the other hand recorded a historically high with a tax cut in 2019 which has wiped out most of the government revenue in 2020 however, financed by printing money. Thus, we are now experiencing the worst economic crisis in the post-independence economy.

As far as you think what are the main factors contributing to the current crisis and the resultant hardships?

The most difficult year for Sri Lanka's economy since independence was in 2022. The Easter Sunday attacks in 2019, the COVID-19 outbreak and its prolonged impact on many sectors in the wake of it in 2020, the socioeconomic and political crisis in 2022 amid disastrous balance of payments (BOP) imperatives, along with unprecedented policy tradeoffs, have all had a negative impact on economic activities and caused unfathomable hardships for people and businesses. Beyond all these catastrophic situations as World Bank pointed out it is mainly due to many years of fiscal indiscipline and risky commercial borrowings which has led Sri Lanka and its people to go through this unprecedented economic crisis. As a result, we had to announce an external debt service suspension in April 2022.

Many people lost their livelihoods and suffered severely





“AT THIS JUNCTURE IT IS A MUST TO SAFEGUARD THE POOR AND THE MOST VULNERABLE PARTIES IN THE ECONOMY. WITH THE SKY-ROCKETING INFLATION THESE ENTITIES HAD THE MOST DISASTROUS EXPERIENCE AS OUR POVERTY LEVEL SHARPLY INCREASED SINCE 2021. THE GOVERNMENT SHOULD SPEND ON SOCIAL ASSISTANCE TO THESE PEOPLE IMMEDIATELY GIVEN PRIORITY”

from the shortage of food, fuel, and important medicine. All of this didn't happen overnight. The economy was already showing signs of weakness even before the COVID-19 pandemic with rapid growth in debt to unsustainable levels. Keeping aside the fiscal imbalances, the monetary policy of the country also was not tight enough to handle the external imbalances. Overall, the economy was not conducive to attracting Foreign

Direct Investments. However, we continued to service debt and facilitate imports without the inflow of foreign currencies which resulted in credit ratings downgrading and limiting our access to international financial markets. We were taking so long to address these issues thus, the crisis deepened affecting many key sectors in the economy.

According to your point of view, who are

the key stakeholders who should come forward to play a major part in this rebuilding stage?

At this juncture it is a must to safeguard the poor and the most vulnerable parties in the economy. With the sky-rocketing inflation these entities had the most disastrous experience as our poverty level sharply increased since 2021. The government should spend on social assistance to these people immediately given priority. As a medium-term solution, we should carefully implement policies to ensure that fiscal sustainability is achieved. As it is evident that we had a loose monetary policy and continued to monetarize the fiscal deficits; the government and the Central Bank must implement required policy measures to prevent the crisis worsening further. Mainly we should not forget the untapped exports potential we have. As claimed by the World Bank, Sri Lanka could create additional 142, 500 jobs if export potential is tapped into. Thus, we should make exports a policy priority. In these paths there are many private and public entities that should come forward and play their role in these critical decisions. It is necessary that we address the root causes of this crisis and take this crisis as an opportunity to build a resilient economy.

As you said social protection system is much needed, how should we prioritize this ?

With the crisis one of the main concerns is the high inflation rate, especially with the food and energy. There are many people struggling to afford nutritious



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THE MOST DIFFICULT YEAR FOR SRI LANKA'S ECONOMY SINCE INDEPENDENCE WAS IN 2022. THE EASTER SUNDAY ATTACKS IN 2019, THE COVID-19 OUTBREAK AND ITS PROLONGED IMPACT ON MANY SECTORS IN THE WAKE OF IT IN 2020, THE SOCIOECONOMIC AND POLITICAL CRISIS IN 2022 AMID DISASTROUS BALANCE OF PAYMENTS (BOP) IMPERATIVES

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foods and access to essential medicine on a daily basis. It is vital that a proper social assistance match with the inflation rate to ensure they fulfil the basic needs and protected against future shocks. Many women and children are being neglected and at risk of protection issues at homes and outside. Not only physically but also this crisis has created many social issues as it has reported many mental health related

issues among children and youth amidst the crisis. Given this context most of these poor families have come up with other coping strategies such as cutting down meal sizes and lending. The impact of such activities would create more serious issues mainly on their spending capacities and on child nutrition. This is where

the priority should be given with a less politized social assistance policy framework which can allocate needed resources to these vulnerable families immediately. It is challenging as we are lacking up-to-date data about these poor households who require assistance and also providing them with financial

“ IT IS IMPORTANT TO FIRST IDENTIFY THE REAL GENESES OF THE CRISIS BEFORE DESIGNING A SUITABLE POLICY PACKAGE IN THE JOURNEY OF RECOVERY. SRI LANKA SHOULD MANAGE ITS CURRENT ACCOUNT RECEIPTS MAINLY WITH THE EXPORT EARNINGS, TOURIST EARNINGS, REMITTANCES ETC. AND AT THE FISCAL FRONT DEMAND MANAGEMENT IS NECESSARY TO ELIMINATE DEMAND PRESSURE ON EXTERNAL BALANCES. TIGHT FISCAL AND MONETARY POLICY IS A MUST TO PREVENT INFLATIONARY PRESSURE FROM WORSENING. HOWEVER, THE SUSTAINABLE RECOVERY WILL DEPEND ON EXPORT EXPANSION AND EFFICIENT IMPORT SUBSTITUTION THROUGH DOMESTIC PRODUCTION. A COLLECTIVE AND COORDINATED EFFORTS OF MANY STAKEHOLDERS ARE NEEDED TO ENSURE A SPEEDY AND SUSTAINABLE RECOVERY ”

support will again create a burden in government fiscal front. Therefore, this is an important area where our country should carefully look at and implement with much transparency, learning from other countries who have undergone similar crisis in their recent past.

What are the crucial adjustments to be implemented to direct the economy into a sustainable development path?

It is important to first identify the real geneses of the crisis before designing a suitable policy package in the journey of recovery. Sri Lanka should manage its current account receipts mainly with the export earnings, tourist earnings, remittances etc. and at the fiscal front demand management is necessary to eliminate demand pressure on external balances. Tight fiscal and monetary policy is a must to prevent inflationary pressure from worsening. However, the sustainable recovery will depend on export expansion and efficient import substitution through domestic production. A collective and coordinated efforts of many stakeholders are needed to



ensure a speedy and sustainable recovery. I believe that we should not consider this situation as a temporary liquidity shock which can be resolved by external financial support but to take it as an opportunity to implement

much needed yet difficult structural reforms to emerge as a resilient economy.

By **Tharani Sooriyaarachchi & Kasun Dissanayake**

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THE ROLE OF SRI LANKANS IN REBUILDING THE NATION



MR. KARTHIGEYAN JEGATHEESWARAN

CHIEF FINANCIAL OFFICER
LAUGHS HOLDINGS LIMITED

What is your overview of the current state of the Sri Lankan Economy?

At the moment, there are distinct statements from various stakeholders. However, the country is experiencing its largest economic decline, and it won't turn around overnight. Similarly, it is going to

leave scars on every one of us. Good times are far away, and we have to be very careful in our expenses. All the people are going through a hard time with the tax cuts going to be imposed in 2023. Also, the inflation, money market liquidity, foreign direct investments etc, it is not up to the expected margin.

There are problems everywhere, but without blaming politicians

or country we should realize that there is a part to play by ourselves.

As far as you think, what are the main factors contributing to the current crisis and the resultant hardships?

I think even after the civil war the country didn't focus on any

“ I BEGAN MY CAREER IN EARNEST AND YOUNG, AND LEARNT AUDIT AND CORE OF FINANCE. FROM THERE, I MOVED TO RICHARD PERIS AND WORKED NEARLY MORE THAN 10 YEARS. IT GAVE ME A LOT OF EXPOSURE IN SRI LANKA. THEREAFTER, I MOVED TO A FORTUNE FIVE HUNDRED COMPANY, ACCENTURE PLC AND LEARNT THE IMPACT OF DIGITAL JOURNEY THAT BUSINESSES HAVE TO ENCOUNTER. RECENTLY, I MOVED TO LAUGHS HOLDINGS LIMITED WITH THE INTENTION OF SERVING MYSELF IN TERMS OF CAREER DEVELOPMENT AND FOR THE COUNTRY.

NOW AS THE CHIEF FINANCIAL OFFICER AT LAUGHS HOLDINGS LIMITED, I'M LOOKING INTO THE GROUP FINANCING, CORPORATE PLANNING, GROUP BUSINESS PLANNING AND OTHER AREAS INCLUDING OPERATIONAL PROBLEMS, GROUP REPORTING WHICH WILL COME UNDER MY PURVIEW. I WOULD SAY IT'S AN OPEN ROLE TO A CERTAIN EXTENT ”

foremost changes. From 2010 onwards the country should have chosen to boost foreign trade rather than focusing only on the domestic market.

Reducing government taxes like VAT was not a good decision taken by the government in 2019, where VAT is one of the major government revenue earning platforms. Also, it is evident that Easter Attack and COVID 19 pandemic affected the country at large. However, this economic crisis would have been simply avoided if the government had made planned properly from 2009.

In your opinion what are the different mechanisms that can be implemented to attract FDIs?

Sri Lanka needs to have a national policy where everyone can have pre agreements. Also, the journey where the country is going to should be very translucent and to accomplish KPIs. Further, to attract foreign direct investments, the national



“ PEOPLE MAKE MISTAKES, AND NO ONE IS PERFECT IN THE WORLD, BUT THERE SHOULD BE A PROPER MECHANISM TO GET THE INVOLVEMENT OF EVERYONE ”



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THE PRIVATE SECTOR SHOULD COME IN TO PLAY INCLUDING SMALL MEDIUM ENTERPRISES (SMES). HOWEVER, TO BE IN THE COMPETITION SMES SHOULD RECRUIT THE PROPER HUMAN RESOURCES THEN THEY WOULD BE ABLE TO PLAY A MAJOR PART IN THE ECONOMY AS THE FUTURE OF THE SRI LANKAN ECONOMY

”

policy should be transparent. Both government and private sectors should be placed in a position where they can plan and concentrate on achievements. This is very vital because Sri Lanka has the best skills and government just need to utilize it in the appropriate manner.

“People make mistakes and no one is perfect in the world, but there should be a proper mechanism to get the involvement of everyone”.

According to your point of view, who are the key stakeholders

who should come forward to play a major part in this rebuilding stage?

The private sector should come in to play including Small Medium Enterprises (SMEs). However, to be in the competition SMEs should recruit the proper human resources then they would be able to play a major part in the economy as the future of the Sri Lankan economy. Further, large corporates play a vital role in the economy, however, the government should make sure that its policies are transparent and properly crafted.



“
 BE HAPPY
 AND ACCEPT
 EVERYONE’S
 WEAKNESSES.
 HUMANS
 HAVE 20%
 BAD THINGS
 AND 80%
 GOOD
 THINGS
 ”

Therefore, SMEs and large corporates should fight towards scaling their businesses which would bring economic stability.

What are the measures you have taken to safeguard your employees during the crisis?

I don't think we can control the brain drain happening now at least to a 10%. Companies can do something to control this situation to a certain extent. In the process safeguarding employees, companies have taken several mechanisms such as training programs, increasing

of the salaries of employees etc.

What advice would you like to give to our students?

The students should realize that everyone, including their parents, is going through a hard time when compared to previous years. They can find some mechanisms to reduce the burden on their parents such as find flexible or part-time employments where they can do it online or from home and to generate an income to help their parents and the country. Also, students need to equip them with right skills and should start

learning different skills as an example geo-politics. Thus, I urge students and people in Sri Lanka to do their part to overcome this issue.

“Be happy and accept everyone’s weaknesses. Humans have 20% bad things and 80% good things”.

By *Dinusha Weerasekera and Janith Iddawala*

RESTORATION OF A STUMBLED ECONOMY

PERSPECTIVES OF A MARKETEEER

MR. PESHALA WIJewardana
CMO OF RICHARD PIERIS & COMPANY PLC



What is your overview of the current state of the Sri Lankan Economy?

There are two key factors which fueled this economic crisis. The first, poor debt management and the second, prolonged fiscal deficit which we haven't managed for decades. Even though the monetary policy was tightened as a reactive measure, inflation will remain high due to supply shortages and raw material price hikes especially driven by the dollar appreciation. With the fluid political situation in the country, effective economic planning and activities will also be adversely affected and slow down. From a customer point of view, especially

with the new PAYE tax imposition, the disposable income will drastically reduce hindering consumption while invariably affecting all business sectors. 2023 will be one of the most economically challenging years for all Sri Lankans in recent history. The Export sector and tourism will be pivotal in the recovery process, supported by the consistent influx of foreign earnings. Resilience will yet again be the moto for Sri Lanka to face these major economic challenges in 2023.

As far as you think, what are the main factors contributing to the current crisis and the resultant hardships?



Inconsistent policies, not being strategic in the economic development process, and the inability to create a clear value proposition for the country are the key factors which led to this crisis in my opinion. We were able to escape from these adversities with short and long term debt financing before yet with continuous macro adversities which reached the maximum vulnerability levels during COVID accelerated the economic crisis and took it beyond controllable levels. Consistency is the key for sustainable economic development and strategic planning allows a country or an organization to plan for adversities and have contingency plans ready to face difficult times. The way in which our foreign reserves reduced in front of our eyes was mind-boggling and it is now a case study of why strategic management and good governance is critical for a state to

prosper its economy.

In your opinion what are the different mechanisms that can be implemented to attract FDIs?

Direct investments depend on the investor confidence of the particular country and investor confidence is based on reflections

of successful business operations generated by similar businesses. A very stable political eco system is a prerequisite for attracting foreign direct investments and in my opinion improving infrastructure is key to attracting high potential investors. These infrastructures include seaports, airports, internal transportation efficiency such as the road system, efficient logistic services that allow the swift

“ 2023 WILL BE ONE OF THE MOST ECONOMICALLY CHALLENGING YEARS FOR ALL SRI LANKANS IN RECENT HISTORY. THE EXPORT SECTOR AND TOURISM WILL BE PIVOTAL IN THE RECOVERY PROCESS, SUPPORTED BY THE CONSISTENT INFLUX OF FOREIGN EARNINGS. RESILIENCE WILL YET AGAIN BE THE MOTO FOR SRI LANKA TO FACE THESE MAJOR ECONOMIC CHALLENGES IN 2023 ”



importation of raw materials and export of finished goods. Sri Lanka's unique geo location makes the country very attractive to both East and the West therefore the focus must be on the improvement of the infrastructure facilities as well as streamlining trade processing.

Fine-tuning the trade policies to facilitate raw material imports with a lenient tariff system will boost trading and attract FDIs. Improving the government processes and systems along with the appointment and training of the right human resources for attracting foreign investors is key.

Making the labor cost competitive compared to the region is also a key factor in attracting FDIs as cheaper labor is one reason why Sri Lanka is losing certain key investments to nearby Indian sub-continent countries such as Bangladesh. Also, addressing the complexities in other labor regulations with regards to compensation and termination and the promotion of ethical labor practices and other good governance practices will also leave a positive impact in the overall effort to attract FDIs. Most



importantly, improving the skilled labor pool and the productivity of labor is also a clear unique aspect which can be used to attract foreign investors.

Consistent marketing and promotional activities for Sri Lanka, highlighting the benefits of investing in the country and highlighting the key industries which are unique to Sri Lanka in agriculture, IT and most importantly tourism are other effective mechanisms to attract the right foreign investors to the country.

In your opinion, what are the measures that

can be taken to improve the foreign earnings.?

Simply broadening the reliance of the traditional exports such as tea, apparel and foreign labor to IT, entertainment, branded products and services is the main long-term strategy to increase foreign earnings in my opinion. The innovativeness of Sri Lankan entrepreneurs and SMEs and the private sector in general must be improved with easy access to new technologies in foreign countries or with government supported collaborations. From COVID times to the economic crisis, we have seen many innovations such as

“ CREATING A FRIENDLY AND FUN-FILLED ENVIRONMENT FOR ALL EMPLOYEES IS AT THE HEART OF THE BUSINESS OPERATION, WHICH IS ESSENTIAL ESPECIALLY AT A TIME OF SUCH HARDSHIP. WELFARE CONTRIBUTIONS AND SPECIAL ALLOWANCES ARE SOME OF THE RELIEF PACKAGES OFFERED TO EMPLOYEES WHILE CONTINUOUS TRAINING AND DEVELOPMENT ACTIVITIES ALSO ENSURE THAT EMPLOYEES ENJOY NORMALCY AT WORK WHILE BEING ABLE TO IMPROVE THEIR TECHNICAL AND BUSINESS SKILLS ”

electric mobility, medical equipment manufacturing etc. which can be developed into mass production level and to generate foreign income with the proper government support and opening of foreign collaboration opportunities and importation of raw material with low or exempted taxes. An export-oriented economy and a culture must be created within the country since the local consumption alone will not allow innovators to scale the businesses. Government must act as a prudent facilitator for these high potential businesses and drive active development of key industries in order to develop new foreign income lines. The traditional exports are being challenged by new regions consistently therefore rapid innovation of export product lines is a must.

According to your point of view, who are the key stakeholders who should come forward to play a major part in this rebuilding stage?

Government will have to be the key

stakeholder in this process since the main responsibility of economic growth, development, sustainability of the country lies with the government along with the people's mandate. The private sector and other stakeholders have always contributed in the possible avenues provided but the main lead and the strategy must be set by the government and create an active buy by the other relevant stakeholders. Creating political stability and governance is key in this rebuilding stage as we see many phenomena's within the economic crisis such as the rapid outflow of talent which is a major deterrent in the rebuilding effort. Improving internal and external stakeholder interests and having a clear vision, mission, objectives and strategy is the core responsibility of the government.

What sort of challenges are faced by the organizations in the process of bringing back business and economic normalcy?

Loss of customer confidence and

reducing disposable income is having a major impact on all businesses including the increase in overheads. The purchase volume drop is heavily impacting active industries such as retail. Businesses must maintain business profitability while contributing to the development of the economy, which is a very tough ask since most organizations are heavily labor intensive. Managing the workforce and most importantly the motivation of the workforce who are affected by the economic crisis is a major challenge for all the companies. Many Sri Lankan industries are heavily reliant on tourism and there is a micro industry system which also benefit from tourism, therefore consistent tourist influx is a major requirement to boost the economic activities. Managing the dollar appreciation required for imports since many industries rely on imported raw materials and finished goods is also another key challenge.

What are the measures you have taken to safeguard your employees during the crisis

Creating a friendly and fun-filled environment for all employees is at the heart of the business operation, which is essential especially at a time of such hardship. Welfare contributions and special allowances are some of the relief packages offered to employees while continuous training and development activities also ensure that employees enjoy normalcy at work while being able to improve their technical and business skills. Training and development opportunities offered to continuously improve skills and facilitate career growth are the best motivation that can be provided to an employee during the current crisis.

■ *By Thisal Yatawara*



REMEDIES AND ACTIONS FOR THE RISE OF THE NATION

DR. NISHAN DE MEL
CEO, VERITÉ RESEARCH

What is your overview of the current state of the Sri Lankan economy?

This is not the Research Institute's point of view. I think I will give you an analysis of the state of the economy. We have the largest negative growth in the economy. We have the largest inflation level in the country. And food inflation is also much larger. For the first time in history, we have

experienced a crisis involving this substance. All the macrodynamics of the economy today are in perhaps the worst state that they have ever been since Sri Lanka gained independence.

As far as you think, what are the main factors contributing to the current crisis and the resultant hardships?

The first aspect is that Sri Lanka

has followed the path of unprofessional policymaking. So, the problems that Sri Lanka faces today could have been dealt with proper analysis and decision-making. But Sri Lanka has been making a series of irrational and adverse economic decisions. Sri Lanka isn't facing a crisis due to external events or any sort of natural disaster. It is fundamentally a policy-driven crisis, and Sri Lanka's difficulty in coming out of it is also connected to that problematic situation.



“
 BUT SRI LANKA HAS BEEN MAKING A SERIES OF IRRATIONAL AND ADVERSE ECONOMIC DECISIONS. SRI LANKA ISN'T FACING A CRISIS DUE TO EXTERNAL EVENTS OR ANY SORT OF NATURAL DISASTER. IT IS FUNDAMENTALLY A POLICY-DRIVEN CRISIS, AND SRI LANKA'S DIFFICULTY IN COMING OUT OF IT IS ALSO CONNECTED TO THAT PROBLEMATIC SITUATION
 ”

First, Sri Lanka does not have a proper analysis to support the decisions made in terms of budgets, taxes, and economic policies. Thus, actions without analysis have gotten Sri Lanka into this crisis.

Second, decision-making authorities act in the private interests of particular groups rather than the public interest of the country.

Because of this, the consequences can be harmful to the country. I'll give you a couple of examples. The reduction in sugar taxes; that happened with a special commodity. If it had not been reduced, and the same amount of sugar had come into the country, we would have collected 45 billion more in revenue. For the government, tobacco taxes have consistently

not been properly implemented, even though there is a formula now. The government stands to lose about forty-five billion. Now, all the taxes that are not collected from vested interests—and you may have noticed that the Committee on Public Finance recently criticized the method of introducing sweeping tax holidays on a set of companies with no rationale and basis. Doing so could provide justifications for giving those tax holidays.

So, all the taxes that are not collected from vested interests will eventually have to be collected from people through consumption taxes and income taxes. So, these are the problems that Sri Lankans face today. Therefore, for the consequences. First is the decision-making that analysis shows is going to



In your opinion, what are the different mechanisms that can be implemented to attract FDIs?

It's important to get governance right and have a government that people can trust. That's the critical element.

Foreign direct investment isn't determined by the tax holidays. Mainly, if you look all over the world, it is determined by the confidence and credibility of government functions. Fundamentally, and obviously, it then considers other aspects of the country's infrastructure and environment.

So, creating an environment that is attractive rather than substituting for an unattractive environment is essential. But to create an environment that is attractive for the functioning of any business is difficult for the government.

In your opinion, what measures can be taken to improve foreign earnings?

I am saying the focus should not be shifted. The emphasis should be on protecting the environment and trusting the government with export earnings. The focus should not be on trade agreements because the assumption behind trade agreements is that the difficulty for exporters lies within the borders of the country.

So there is a concept called "trade facilitation," under which lots of studies have been conducted, and measures have been identified so that Sri Lanka can improve the conditions that exporters face within the country for exports in keeping with its commitments to improve trade.

“ FOREIGN DIRECT INVESTMENT ISN'T DETERMINED BY THE TAX HOLIDAYS. MAINLY, IF YOU LOOK ALL OVER THE WORLD, IT IS DETERMINED BY THE CONFIDENCE AND CREDIBILITY OF GOVERNMENT FUNCTIONS. FUNDAMENTALLY, AND OBVIOUSLY, IT THEN CONSIDERS OTHER ASPECTS OF THE COUNTRY'S INFRASTRUCTURE AND ENVIRONMENT ”

happen, and what's the consequence of that?

Third, vested interests are essentially being favored at the expense of the public good. So, this is fundamental if I was captured by the bad governance in Sri Lanka, and if bad governance is the driver,

But economic research institutes

can really help with the lack of analytical capacity in development. But the government also keeps information very close to its chest. So sometimes, it is very time-consuming and difficult to get research done without access to open information and data. But certainly, the critical role that research institutions can play today is to provide analysis.

If Sri Lanka focuses on improving its trade facility, that will be the most significant way to help grow its exports.

What sort of challenges are faced by organizations in the process of bringing back business and economic normalcy?

You need to do two things to make that happen. One is there should be a well-analyzed plan for meeting targets that we have set for ourselves after another step.

“

I AM SAYING THE FOCUS SHOULD NOT BE SHIFTED. THE EMPHASIS SHOULD BE ON PROTECTING THE ENVIRONMENT AND TRUSTING THE GOVERNMENT WITH EXPORT EARNINGS.

”

So currently, we have targets, but we don't have analysis to support the targets. Given Sri Lanka's history and the nature of our IMF programs, we have never met the targets we set for ourselves at the time. That's been the norm in Sri Lanka's history. Sri Lanka has been in sixteen programs in the last fifty-six years.

Now, if Sri Lanka does business as usual, it will get the results as usual and fairly, so it's important that this time Sri Lanka should commit to targets. It must also have an analytically designed plan to achieve it on time. I'll give you a few priorities.

The first priority is to put the debt restructuring negotiations on a fast track. It's currently on a slow trip. We know that country has renegotiated their debts recently, within the last six months. Sri Lanka has already spent so much time; instead of completing the

whole restructuring process at the end of this year. Sri Lanka should try to move it much faster to try and complete it in the next five to six months.

The next immediate remedy is to eliminate vested interests and corruption, thereby eliminating the space for corruption vulnerabilities in decision-making. So the IMF, for the first time, has actually introduced that into that program and said that corruption vulnerabilities are significantly macro-critical,

So, Sri Lanka should significantly improve its governance and stamp out its corruption vulnerabilities.

■ **By Gayan Chandima**





“
BOI, ESTABLISHED
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ENHANCING
EXPORT
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CREATING
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AND
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TRANSFER OF
MODERN
TECHNOLOGIES
”

What do you think of BOI's role in the economic revival of Sri Lanka?

Attracting investment, especially FDI, in the current context is a priority for Sri Lanka as it is the best non-debt source of FOREX inflow. BOI, established in 1978, is the apex agency having the mandate of promoting and attracting

foreign-direct investments to Sri Lanka, enhancing export earnings, creating employment, and facilitating the transfer of modern technologies.

More than 500,000 employees working in the BOI enterprises, including 150,000 in 15 export zones under BOI, represent 18% of the national workforce engaged in

ROLE OF BOI IN ATTRACTING SUSTAINABLE FOREX

MRS. RENUKA WEERAKONE
DIRECTOR GENERAL BOI

Mrs. Renuka Weerakone is an Attorney-at-Law by profession counting over 31 years of experience and commenced her working career as an instructing attorney with a leading Law firm in Colombo. She is also a licensed Notary Public and Commissioner for Oaths. In addition, she holds a master's degree in Business Administration from the Postgraduate Institute of Management, University of Sri Jayewardenepura. She currently serves as the Director General (Actg) at the BOI previously holding the post of Executive Director heading Project Monitoring. In her career at the BOI spanning over 27 years, she has gained a wealth of experience and broad knowledge to facilitate activities of foreign direct

investment projects with her work in several key departments including Promotions and Investments and held the post of Board Secretary over five years concurrent to her other duties. She has represented the BOI at local and International Forums including the Second-Round negotiations of the proposed Sri Lanka – China FTA held in Beijing, the Joint Council under US-Sri Lanka Trade & Investment Framework Agreement in Washington, and outward investment promotion missions to China, the UK, USA, Japan, and Russia among other countries. She has also been an active member of Steering Committees, Policy Committees, Inter-Agency Committees tasked with resolving issues faced by investors to fast-track implementation of investment projects.

industrial activities, including the ICT sector. In addition to these direct employment opportunities, many indirect employment opportunities have been created in association with the enterprises of the BOI. The BOI enterprises contribute 65% of the national exports, 85% of the national industrial exports, and 96% of the total export income of the apparel

industry sector.

In the mission of increasing FOREX inflows to the country, I am happy to share that, despite the challenging times, the BOI has achieved 70% of its targeted FDI for the year 2022 by the 3rd quarter. We also witnessed an increase of 10% in merchandise exports by BOI enterprises from January to

November compared to the corresponding period in 2021. BOI's role in the expected economic recovery is immense and wide as it covers these major parts that need attention and improvement. We plan to attract digital FDIs to the country, considering that technology-driven investments are more beneficial to the country in the context of technology learning



“IN TERMS OF ATTRACTING MUCH-NEEDED FDI, THE BOI HAS ADOPTED SEVERAL INITIATIVES DURING THE YEAR 2022. FOCUSING ON THE BOI AND ITS ROLE, INVESTMENT FACILITATION HAS BEEN IDENTIFIED AS A KEY STIMULATOR OF THE OVERALL INVESTMENT POLICY, WITH A VIEW OF ENSURING AN EFFICIENT, TRANSPARENT, AND PREDICTABLE BUSINESS CLIMATE WHICH IS ESSENTIAL TO STIMULATE INVESTMENT”

and a long-term investment span. In addition, it will provide a much-needed pathway for Sri Lanka to become a technological hub in Asia, while also fulfilling the UN (United Nations) sustainable development goals.

What measures have you been implementing so far to ease the burden of the current economic hardships on

the Investors as an institution?

In terms of attracting much-needed FDI, the BOI has adopted several initiatives during the year 2022. Focusing on the BOI and its role, investment facilitation has been identified as a key stimulator of the overall investment policy, with a view of ensuring an efficient, transparent, and predictable business climate which is essential to stimulate investment.

In order to address the challenge of

limited physical presence during the pandemic period, the concept of digitization of the organization emerged as the best solution and significant improvements have already been rolled out with respect to BOI functions. Further, the introduction of an online process for submitting investment applications and granting investment approvals is underway. Having recognized that the global trend is to focus more on attracting re-investments over greenfield investments, an effective promotional mechanism to attract re-investments has also been put in place while simultaneously continuing to facilitate existing company needs.

BOI has also introduced a new Business Partnership Database through the BOI website to facilitate investors seeking business partnerships with foreign and Sri Lankan companies/investors. This platform acts as a network to bring together foreign and domestic companies and is designed to help

businesses, research institutes, and start-ups find the right partners for their next business proposal or innovation.

In your opinion, what mechanisms can be implemented to attract FDIs?

Among the multifaceted options that will secure an increased FDI inflow to the country is to encourage both new investments and reinvestments by existing players. Further, it is evident that adopting technology and digitalization within the BOI system has resulted in a better investor experience, and therefore BOI will be targeting attracting more Digital FDIs. A national priority attracting FDI will bring synergy with all other line agencies and ministries in alignment with the BOI effort. The collaborative nature of the mechanism will bring a much-needed image booster to the country, and it will uphold the "Nation Branding" status in the mind of our prospective investors.

Investment facilitation also should be strengthened further as facilitation would be the driving force behind making a transparent, efficient, and investment-friendly business climate by making it easier for investors to invest, conduct their day-to-day business, and expand their existing investments providing them with reasons to continue operations in the country.

One of the key areas to be concerned with is to provide the investors with readily accessible lands to start their business ventures. In order to address this issue, the BOI has taken steps to establish two dedicated zones for Textile and Pharmaceutical Manufacturing in Eravur and Hambantota Arabokka respectively making the inflow of FDI more focused and facilitated under special circumstances.

“ ONE OF THE KEY AREAS TO BE CONCERNED WITH IS TO PROVIDE THE INVESTORS WITH READILY ACCESSIBLE LANDS TO START THEIR BUSINESS VENTURES. IN ORDER TO ADDRESS THIS ISSUE, THE BOI HAS TAKEN STEPS TO ESTABLISH TWO DEDICATED ZONES FOR TEXTILE AND PHARMACEUTICAL MANUFACTURING IN ERAVUR AND HAMBANTOTA ARABOKKA RESPECTIVELY MAKING THE INFLOW OF FDI MORE FOCUSED AND FACILITATED UNDER SPECIAL CIRCUMSTANCES ”

The other specific area to be concerned about is attracting more sustainable investments by scaling up the skills of human capital to cater to the current labor demand. The BOI has introduced a new mechanism to address this issue by facilitating special training programs in collaboration with NAITA targeting school leavers.

What improvements do you suggest to the current operational mechanism of BOI in effectively attracting and retaining FDIs to the country?

BOI has taken initiatives to enhance investor facilitation via advancing digital transformation and we expect to fully digitalize the investment approval process in the near future. With the investment approval process being streamlined and interagency coordination being strengthened, the BOI could offer investors an expedient service.

Further, to ensure that the investors are looked after throughout the investment's lifespan within the country, a dedicated investment officer is to be assigned at the time of the investor's first contact point at BOI. This investment officer will be responsible for coordinating with other relevant line agencies and resolving all the issues that the

investor might encounter. A dedicated space allocated on the 27th floor at the West Tower of the World Trade Centre (WTC), Investor Facilitation Centre (IFC) has been launched to provide an efficient and seamless service to investors while streamlining the investment approval process and strengthening the interagency coordination.

One of the major impediments identified in attracting and retaining FDI is the unnecessary delays in granting investment approvals that create significant obstacles and transaction costs to investors. Generally, investors seeking to establish operations in Sri Lanka must obtain over 20 approvals from numerous line agencies.

The time taken to grant such approvals depends on the process and procedures followed by each line agency. Also, it has been identified that poor intra-agency coordination has resulted in an inefficient investment approval process with undue delays. As such, the IFC is deemed to address the unnecessary delays faced by investors and thereby sustain their confidence. IFC has been set up in a well-organized manner making things comfortable and convenient for investors while providing them with a state of an art ecosystem to conduct investor affairs.

■ **By Daupadee Gamage**

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NSBM GREEN UNIVERSITY
Mahenwaththa, Pitipana, Homagama, Sri Lanka.



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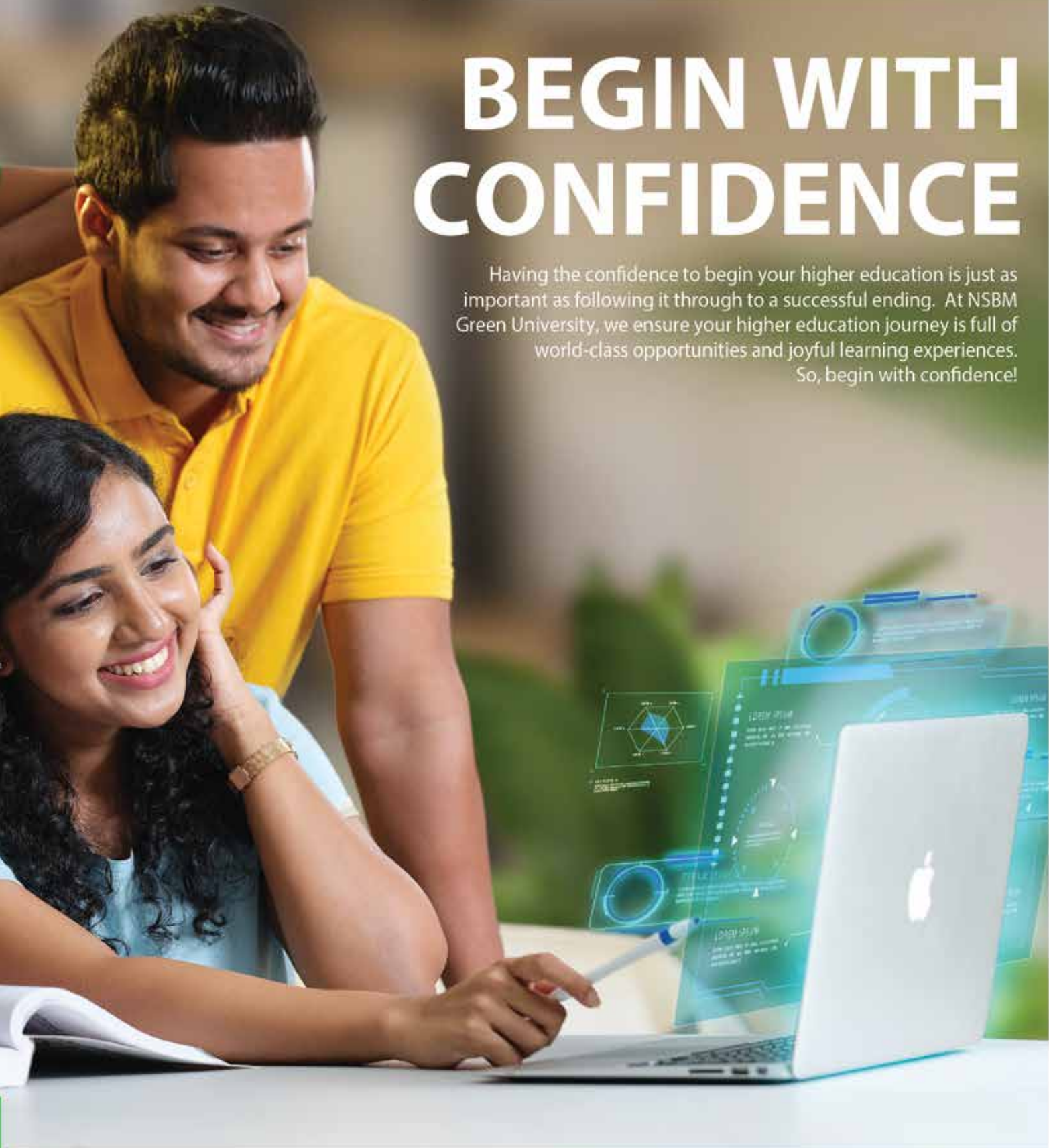
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