ASSOCIATION OF
PROFESSIONAL
BANKERS-SRI LANKA

e-Volume Sponsor

SDB bank

33rd Anniversary Convention

Monday 20th February 2023 | 08.30 a.m. - 06.30 p.m.

Grand Ballroom, Cinnamon Grand - Colombo

INSIDE

Sponsorship Partner – e-Volume CONVENTION - 2023

Message from the Chief Guest

To witness the holding of the 33rd Anniversary Convention of the Association of Professional Bankers – Sri Lanka is, for me, a greatly satisfying experience in the current economic landscape of the country. Sri Lankan banking sector has undergone significant challenges during the recent past. As the Governor of the Central Bank of Sri Lanka, I am proud to place on record that our financial sector participants have encountered such challenges valiantly by ensuring that the country's financial system remains robust and resilient.

Economic revival and growth require a collaborative approach involving all segments and stakeholders of the economy, and especially the banks as financial intermediaries. This Convention of professional bankers could be used as another launching pad to co-ordinate efforts of resource personnel from different relevant fields, and effectively make use of their different perspectives about manoeuvring the socio-economic processes in these difficult times and how the banks can level their contribution to revive the nation whilst safeguarding their robustness. Also, amidst many tenacious issues related to the local economic and financial landscape, it is vital for the banking sector and its participants to face unknown encounters that would be motivated by technology and innovation, in the future. Still, I am confident that the banking system of the country is resilient and well prepared to withstand any challenge, as it has always been.

My best wishes for every success of the 33rd Anniversary Convention of the Association of Professional Bankers – Sri Lanka 2023, and I hope it would portent another milestone of a series of dialogues that is helpful in restoring prospects of economic growth and prosperity in Sri Lanka.

Dr. P. Nandalal Weerasinghe
The Governor - Central Bank of Sri Lanka

Message from the President

It gives me great pleasure as the President to forward this message to our 33rd Anniversary Convention.

APB as a professional body is always agile to the current market and economic conditions. The convention is our major flagship event in our annual calendar. This time we have selected the theme "Resilient and Adaptable - Way Forward for Banking" looking at the current economic situations we are faced with. Today, the Sri Lankan Banking industry must acquire a complete understanding of the current economic, political and social issues. The Banking industry should ensure that it remains resilient and face the challenges the industry is undergoing currently and is able to adapt itself to changing conditions both in its own interest and in the interest of the general economy of the country. This year program unfolds four technical sessions under the subject areas of;

* Resilience in the VUCA World
* Collaborating Tech to Adapt
* Adaptable Skills & Resilient Leadership - The New Age Talent Formula
* Steering through difficult times - View from the Top (Bank Chairmans' forum)

All sessions have been well articulated around the subject matters which are pertinent in the current environment and renowned experts in diversified fields are selected as guest speakers and panellists who will share their valuable insights and experiences at this event.

APB over the years has come a long way building close ties with banking professionals and fostering the relationships among fellow members. During the current year many events were held by the Continuous Professional Development Committee to create awareness and knowledge sharing programs for the membership on subject matters which were most important to members. The annual quiz too has brought in interactions between fellow bankers in all districts who joined to compete in this event with much enthusiasm to be champions of within the banking industry.

We have also initiated a program jointly with the Institute of Bankers to develop young career bankers to upskill their practical skills, share knowledge and mentor them to be successful professional bankers.

My sincere gratitude and appreciations to our Governor Central Bank of Sri Lanka Dr P Nandalal Weerasinghe for accepting our invitation to be the chief guest and deliver the key note address.

This event would not be a success if not for our committed council members, advisory council and fund management committee, we greatly appreciate and thank our sponsors, business partners, media partners, guest speakers, panelists, our writers who have submitted valuable articles to the e-volume, our event management company, staff of Cinnamon Grand hotel, our APB Secretariat staff for their keen interest and commitment to have this event successfully

Wish you all Good Luck, please join in and participate in APB future activities that are planned, it will also give you an opportunity to mingle with diversified experts, engage in learning and build your career goals as professionals.

Jeremy De Zilva
President - Association of Professional Bankers- Sri Lanka

Message from the Chairperson - Publication Committee

I along with the members of the Publication Committee take great pleasure in presenting the Convention volume in line with the 33rd Annual Convention of the Association of Professional Bankers that will be conducted on the 20th of February 2023.

The Association of Professional Bankers take great pride and considers as one of its obligations in improving competencies and knowledge of fellow Professional Bankers. Publishing of the Annual Volume is directed towards achieving this objective.

This year's volume is enriched with timely and relevant articles authored by eminent personalities of the industry and other spheres of our economy. I invite the participants and anyone else who has an interest in current environment of the Sri Lankan Banking industry & it's future to read the articles published in this volume. Also, let me invite you to contribute scholarly articles on Banking related subjects to our e-journal as well as for the future annual volumes.

This volume would not be a reality if not for the contributions made by the authors, and special appreciation to them for devoting their time and effort in making contributions amidst their demanding commitments.

I wish to thank the committee members of the Publication Committee who made an untiring effort in making this volume a success. Let me also, on behalf of the committee members of the Publication Committee, place in record the value of the guidance extended by the council members, advisory committee and the fund Management Committee in bringing this to a reality.

Special appreciation to the sponsor of this E-Volume – Sanasa Development Bank.

I wish to thank the officials who did the proof reading, editing, type setting, designing, compiling the art works and all who supported in bringing the APB annual conference a success.

Best Regards

Christine S. Jesudian
Chairperson
Publication Committee – APB 2022/2023

Association of Professional Bankers – Sri Lanka
33rd Anniversary Convention- Resilient and Adaptable-Way forward for Banking
At the Grand Ballroom Cinnamon Grand, Colombo 3

PROGRAMME FOR THE DAY

Morning:

07.45 am.	- 08.30 a.m.	Registration of Participants
08.30 a.m.	- 08.50 a.m.	Opening Ceremony
08.50 a.m.	- 10.00 a.m.	**Session One-Resilience in the VUCA World**

Speaker
Mr. Abhinav Bansal - MD & Partner BCG India (20 minutes)

Panel Discussion - (50 minutes)

Panelists
Mr. Jonathan Alles - Managing Director/CEO - HNB
Mr. Ravin Basnayake - Country Officer- Citi Bank
Mr. Dimantha Seneviratne- Director/CEO - NDB

Moderator
Mr. Abhinav Bansal - MD & Partner BCG India

10.00 a.m.	- 10.15 a.m.	**Tea Break**
10.15 a.m.	- 10.20 a.m.	Launch of the Convention E volume
10.20 a.m.	- 11.15 a.m.	**Session Two - Collaborating Tech to Adapt**

Speaker
Mr. Supun Weerasinghe - Group CEO Dialog Axiata (20 minutes)

Panel Discussion - (40 minutes)

Panelists
Mr. Supun Weerasinghe - Group CEO Dialog Axiata
Mr. Vikas Varma - COO South Asia Mastercard International
Mr. Sumudu Gunawardhana - CIO Commercial Bank of Ceylon Plc

Moderator
Mr. Abhinav Bansal- MD & Partner BCG India

11.15 a.m. - 12.30 p.m.	**Session Three - Adaptable Skills & Resilient Leadership - The New Age Talent Formula** **<u>Speaker</u>** Mr. Dinesh Weerakkody- Chairman- BOI & Port City (25 minutes) **Panel Discussion – (50 minutes)** **<u>Panelists</u>** Mr. Dinesh Weerakkody - Chairman - BOI& Port City Dr. Lalith Weragoda - CHRO - Sampath Bank Mr. Roshan Kulasuriya - Director HR & Business Integration Singer Sri Lanka **<u>Moderator</u>** Mr. Nisthar Cassim – Founding Editor/CEO - Daily FT
12.30 p.m. - 1.45 p.m.	**<u>Lunch Break</u>**
1.45 p.m. - 2.00 p.m.	**<u>Entertainment</u>**
2.00 p.m. - 3.30 p.m.	**Session Four -Steering through difficult times - View from the Top** **Panel Discussion** (90 minutes) **<u>Panelists</u>** Mr. Ronald C Perera P.C. - Chairman - Bank of Ceylon Mr. Sujeewa Rajapakse - Chairman - Peoples Bank Prof. Ananda Jayawardane - Chairman - Commercial Bank Ms. Aruni Goonetilleke - Chairperson - Hatton National Bank Mr. Harsha Amarasekera P.C.- Chairman - Sampath Bank **<u>Moderator</u>** Ms. Shashi Kandambi Jassim - Senior DGM International Banking - Sampath Bank
03.30 p.m. - 03.45 p.m.	**<u>Tea Break</u>**
03.40 p.m. - 03.50 p.m.	**Raffle Draw (from Business cards five winners picked by CIMA)**

Evening

03.45 p.m.	Arrival of Invitees - Please be seated by 3.55 p.m.
04.00 p.m.	Arrival of Chief Guest (CBSL Governor)
04.10 p.m.	Welcome Address by Mr. Jeremy De Zilva President, Association of Professional Bankers Sri Lanka
04.20 p.m.	Key note Address by the Chief Guest Dr. P Nandalal Weerasinghe – Governor Central Bank of Sri Lanka
04.45 p.m.	Presentation of the Award for the Outstanding Contribution to the Banking Industry
05.00 p.m.	Vote of Thanks by Secretary General, APB
05.15 p.m.	Fellowship & Cocktails

Resilient and Adaptable: 'Strategic Transformation' way forward for banking

Dr. Viruli de Silva, Ph.D.
Former Director of Studies, Institute of Bankers - Sri Lanka

Introduction:

It is important to identify and focus on what is 'Resilient' first. The word 'resilient' means being able to withstand or recover quickly from a difficult condition. A strong and resilient banking system is crucial for the sustainable economic growth of a country. The banking system is the foundation for sustainable economic growth as the banks play a critical role, especially at the center of the credit intermediation process between savers and investors. In addition, banks provide many important financial services, including critical services to individuals, small and medium-sized enterprises (SMEs), large corporate companies, and governments who rely on the banks to conduct their day-to-day businesses, both at a domestic and international level.

Scholars have argued that the global health tragedy associated with the COVID-19 pandemic has been the most significant global disruption since the Second World War, which lasted from 1939 to 1945. The magnitude and scope of the global crisis due to the post-COVID-19 pandemic have started to show the financial disruptions and risks associated with a strongly interrelated business world, in addition to the critical health, economic and social issues faced by the world. In the present business environment especially during the height of the Covid-19 pandemic, during 2020 and 2021, the disruptions caused in the traditional banking industry by non-banking service firms were quite evident. Disruption means a disturbance or problem which disturbs or interferes with a regular event, activity, or process. During this COVID-19 pandemic, many smaller companies with fewer resources were able to successfully challenge established market leaders or businesses. The banking industry two was a part of this novel experience.

Many disruptive innovations flooded the financial industry during this critical period. Disruptive innovations are the novelties that create a new market, finally interrupting a traditional existing market and value network. The danger is that disruptive innovations displace established market leaders, products, and alliances, forcing them to review and re-design their business strategies. Many disturbances to the banking industry too were visible, mainly due to digital disruption, or due to innovations via digital transformation through fast-developing innovative technology. As a result, digital disruption is transforming the global banking industry with the introduction of innovative digital products and services, which is a blessing in disguise.

New transformation strategies to adapt to face new challenges

As expert banking researchers have found, banks have to introduce new transformation strategies to their traditional business models to adapt to face the challenge of innovative disrupters. Traditional banks should understand their position about any particular disruptive innovator in the market, in a way they had never thought before. Hence, in such a complex business context, designing unique experiences for constantly demanding customers, meeting strict regulatory compliance, maintaining accountability, transparency, data protection, good governance, and talent management/retention/brain-drain are huge challenges for banks. Thinking differently and acting smartly is vital for traditional banks for a strategic transformation in the present digitally disrupted banking environment.

According to reputed researchers in the global banking context, innovative or 'out-of-the-box thinking' and well-crafted, resilient, and adaptable models are important for the strategic transformation of banks beyond the year 2020. Some reputed research companies have recommended that the focus of global banks should be on addressing four key areas, namely i) regulatory compliance, i) technology, iii) risk management, and iv) talent management, in particular. Further, they recommend that banks need to face the challenges or problems in a new way, conceptualizing the issues differently.

The latest research report on Banking & Capital Markets by a team of reputed researchers (Ernst & Young, 2023) has identified that the 'bank of the future' will integrate disruptive technologies with an ecosystem of partners, to transform their businesses and achieve growth. Hence, it is evident that digital disruption is creating opportunities and challenges for global banks. The researchers also argue that while the risk and regulatory protection agenda remains intact, the banks must also focus on financial performance and heightened customer and investor expectations. This is mainly because they reshape and optimize operational and business models to deliver sustainable earnings. Therefore, innovation and business-led transformation will be critical for future growth. To maintain a competitive edge and remain relevant in the industry, the researchers recommend that every bank must accept destruction and strategically build a better ecosystem, not a bigger bank as in the past.

Banking ecosystems

It has been recognized that in a fast-growing digital banking environment, banks are interested in operating in 'banking ecosystems'. A banking ecosystem is 'an inter-connected set of financial services where customers could fulfill a variety of needs in a single integrated experience'. It focuses on bridging transactions to make the customer's regular operations easier. In a banking ecosystem, customers demand better unique experiences from their banks. However, in a fast-developing, modern digital banking environment, banks can offer the integration of products and services from a variety of providers. This is in contrast to offering customers only a few traditional core banking products and services from a single provider. The integration of products and services from a variety of providers will focus on effective and efficient banking solutions for customers. This will help to simplify their regular financial transactions and offer superior, different customer experiences. This is identified as the 'core' of digital banking.

Researchers recommend strategic transformation for traditional banks through innovative disrupters or non-banking financial service firms such as FinTechs. Transformation strategies for banks in a digitally disruptive environment are briefly discussed, highlighting the strengths of banking ecosystems and unleashing the potential of disruptive innovators.

It is important to note that in a banking ecosystem, where customers demand improved unique experiences, the banks are faced with great challenges in delivering such perfect customer solutions. This is due to many obvious reasons: complying with strict expensive regulatory requirements, managing various forms of risks to banks, managing talent at work, etc. being at the forefront. Regarding challenges faced by banks in complying with changing regulatory requirements, over the past five years in Sri Lanka, many new regulatory requirements have been imposed on banks. The objective of such requirements was to ensure a strong sustainable banking industry, mainly to guard against risks in capital requirements and provisioning for irregular and bad debts.
The Basel III regulation commenced on 1st July 2017 which in capital, liquidity, and leverage. An established credit rating agency, Fitch Ratings Inc., had stated in the article 'Basel III raises capital

pressure for Sri Lankan banks' (economy next, 2019) that 'Sri Lankan banks are likely to come under increased capital pressure from Basel III-related requirements that take full effect at the start of 2019'. Hence, in contrast to innovative non-banking companies operating in the financial services industry, banks face a great challenge in delivering perfect customer solutions, in a disruptively changing banking environment. imposed on Sri Lankan banks (Central Bank of Sri Lanka, 2017), a requirement to maintain minimum capital ratios and buffers in respect of total risk-weighted assets had led to more stringent regulations.

Banking, Non-banking firms, and Competition

Further, in such a fast-developing environment, banks are strongly engaged in strict competition with each other for their survival and growth. Researchers argue that by doing so banks harm themselves and also damage the banking industry, as a whole. Instead, banks should be aware of threats being posed by non-banking firms such as FinTechs, invading their space. Banks need to work in collaboration with non-banking firms to be strong and proactive, to face such challenges/threats successfully. In addition, technological developments such as a combination of advanced data analytics, open banking APIs, and conversational Artificial Intelligence (AI) could create a unique customer experience. This could increase customer satisfaction, customer loyalty, lifetime value, generate revenue for the provider, etc. The challenge is that the provider of this advanced banking ecosystem does not necessarily have to be a traditional bank. Hence, in this fast-developing challenging environment, banks need to redesign their road maps, collaborating with existing competitors and new entrants/ innovative disruptors such as the FinTech companies, etc., in the financial services industry.

Effective collaboration with non-financial services companies

Based on a recent global banking survey conducted by the research team of Ernst & Young (2019), the article recommended four steps for banks, to effective collaboration with non-financial services companies or FinTech companies, towards the strategic transformation of traditional banks: (i) to develop a FinTech framework that rewards innovation; (ii) to choose an innovative operating model that connects new ideas to business needs; (iii) to assess the pros and cons of bank's FinTech engagement strategies and (iv) to carefully manage talent and architectural change of the organizations. Based on the above global survey, the Ernst & Young researchers recommended inserting non-financial services companies or FinTech companies in the banking ecosystem.

This article lastly discussed the strong message given to the traditional banks through the above survey, supporting the focus of this article, Resilient and Adaptable: 'Strategic Transformation' way forward for banking.

If transformation needs to be bold, do banks have the right tools for success?

A research team from Ernst & Young in their latest report (EY, 2023) addresses this question. Banking transformation leaders from 10 major multinational banks, in different locations across the globe, have given six key recommendations, on how banks can improve strategic transformation outcomes, to be resilient and adaptable toward the way forward in banking.

According to the above recent global banking survey by Ernst & Young (2023), the article highlighted six key recommendations from the Banking transformation leaders of 10 major multinational banks in different locations across the globe.

The transformational experts tell you how your bank can have the best chance of success to be resilient and adaptable, toward the way forward in banking.

The six key recommendation strategies are:

1. Redefine transformation, with a focus on fundamentally improving customer and employee experiences.
2. Inspire and lead from the top, so that executive management determines and communicates the bank's transformation vision and strategy.
3. Rethink transformation ideation and investment evaluation, ensuring that the impact of initiatives on customer and employee experience is considered, as well as financial performance.
4. Reposition for agility at scale, focusing on core technology, culture, team structure, and governance as enablers for rapid change.
5. Reorchestrate talent and invest in people, paying particular attention to diversity and the value proposition for current and future employees.
6. Re-evaluate tracking and performance monitoring, making use of multiple financial and non-financial metrics.

Conclusion:

Change in the banking industry is unavoidable, and it continues to redesign the future of banks, globally and locally. Based on a few recent surveys in the global banking industry by reputed research companies, such as Ernst & Young, this article discussed how banks should be resilient and adaptable through strategic transformation, toward a way forward for banking.

A strong and resilient banking system is crucial for the sustainable economic growth of a country. The size and scope of the global crisis due to the post-COVID-19 pandemic have started to show the financial disruptions and risks associated with a strongly interrelated business world. In the present business environment, especially during the height of the Covid-19 pandemic, in 2020 and 2021, the disruptions caused in the traditional banking industry by non-banking service firms were quite evident. The researchers also highlighted that while the risk and regulatory protection agenda remains intact, the banks need to focus on financial performance and heightened customer and investor expectations.

A global research study by Ernst & Young (2019) has recommended that the focus of global banks should be on addressing four key areas, namely i) regulatory compliance, i) technology, iii) risk management, and iv) talent management, in particular. Further, identified that the banks have to introduce new transformation strategies to their traditional business models, to adapt to face the challenge of innovative disrupters. According to researchers in the global banking context, 'out-of-the-box thinking' and well-crafted, resilient, and adaptable models are important for the strategic transformation of banks beyond the year 2020.

According to the latest research report on Banking & Capital Markets (Ernst & Young, 2023), the bank of the future will integrate disruptive technologies with an ecosystem of partners, to transform their businesses and achieve growth. Hence, digital disruption has created opportunities and challenges for global banks. This article finally highlighted the strong recommendations given to the traditional banks through the above surveys, supporting the focus of this article, Resilient and Adaptable: 'Strategic Transformation' way forward for banking.

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Development of MSME Sector with the Support of Sri Lankan Banking System in the Crisis Situation

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Faculty of Management and Finance
University of Colombo

Abstract

The Sri Lankan MSME sector plays a crucial role in the country's economy in terms of value addition, contribution to the GDP and employment generation. However, they are facing many problems during last few years due to many crisis situations faced by the country. At the same time, Sri Lankan MSME sector face many challenges and problems, which can be overcome by using different strategies. As evident presently that Sri Lanka is facing an economic, political and social crisis situation. This situation has provoked the problems faced by the MSME sector in Sri Lanka. The Sri Lankan banking sector has supported the MSME sector amidst many difficulties with the support of the Government. As a result, MSMEs has some relief on their activities. However, there are many grievances in their side which have not been rectified at present.

Keywords: MSMEs, MSME Sector, Sri Lanka, Banking Sector, Crisis Situation

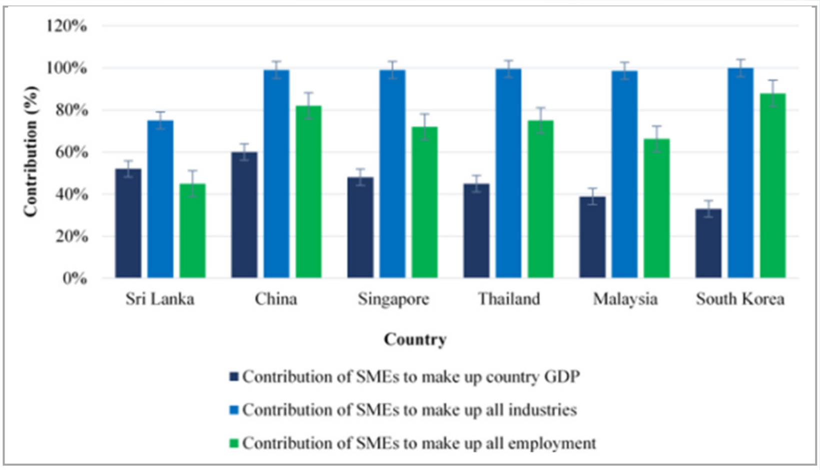
Introduction

At the outset, it is important to know that it is difficult to understand the MSME sector in Sri Lanka well due to unavailability of timely and reliable data, unviability of reliable data bases and this still an informal sector. Hence, the data and sources use in the manuscript may not always recent literature to justify the arguments of the author.

MSME sector is the most important sector in any country. It has been considered as the lifeblood or the backbone of any economy in the world. This scenario is similar to Sri Lanka as well. Therefore, we need to protect MSME sector as we do for the large-scale businesses in the country. This is clear with the information given in the Figure 01 below. According to Economic Census 2013/14 (2015) MSMEs plays a vital role in almost all the economies in the world, especially to the developing economies like Sri Lanka. It contributes largely to the GDP by participating in the mainstream economy, becoming source of income to a substantial portion of the population by providing employment opportunists. On the other hand, MSMEs serve as a nursery for large enterprises of the future, as most of large enterprises right now originated as MSMEs in the past.

High performance and development of MSMEs are central factors for the economic development of any country. The performance level of MSMEs in Sri Lanka are not up to the level of MSMEs in developed countries according to the report on National Strategy for Small and Medium Enterprise Sector Development in Sri Lanka (2002). When comparing the MSMEs in Sri Lanka with that of foreign countries, many factors that affect the performance level of Sri Lankan MSMEs could be found. The states policy inertia, high interest rates, low level of technology, lack of technical and managerial skills, non-availability of market information, lack of marketing skills, lack of infrastructure, inappropriate labour rules, competition using low standard goods and an unfriendly MSME regulatory system were identified as factors affecting the MSME growth in Sri Lanka. Further, National Strategy for Small and Medium Enterprise Sector Development in Sri Lanka (2002) states that according to the 1997 World Bank report, within a period of eight years from receiving a small and medium industry loan, 20 percent of the small and medium industries only survived in Sri Lanka.

Figure 01: Contribution of SMEs to Make up the Country's Economy Overall Industries, and Overall Employment in Sri Lanka, China, Singapore, Malaysia and South Korea



Source: Piyumal K. T. R., Samarakoon K. W., and Hirimburegama K. (2021) A Revisit of National Science and Technology Policy for the Development of Small and Medium Enterprises in Sri Lanka, KDU Journal of Multidisciplinary Studies (KJMS), 3 (2), pp. 89-102.

Riddle in Defining MSMEs in Sri Lanka

Economic Census 2013/14 (2015) states that currently, Sri Lanka doesn't have a generally accepted criteria for defining MSMEs, instead different agencies use different criteria based on their objectives and there is no consistency among them. Identifying MSMEs on commonly acceptable criteria was a long felt need of the country, and number of forums were organized and different surveys were conducted by different agencies in view of achieving that goal. However, the definition of MSMEs varies from organizations to organization, region to region, country to country, and sometimes within one nation.

MSMEs can be defined in terms of many parameters such as the number of persons employed, amount of gross revenue, amount of capital invested, energy use, or a collection of two or more. It is a fact that there is no universal or unique definition concerning SMEs (Vijayakumar, 2013). The number of employees, capital invested and sale volumes are probably the most accurate parameters to define MSMEs, but these data are not readily available (Ardic et al., 2011). In the Sri Lankan context, the total number of employees, capital invested and the annual turnover are the commonly used yardsticks to determine MSMEs (National Policy Framework for Small and Medium Enterprise (SME) Development, 2017). The World Bank (2017) defines SMEs and large-scale enterprises based on the number of employees in terms of 5 - 19, 20 - 99, and more than 100 as small entrepreneurs, medium entrepreneurs, and large-scale entrepreneurs, respectively. In this context, micro-enterprises are also read with SMEs for any policy related measures (National Policy Framework for Small and Medium Enterprise (SME) Development, 2017). Table 01 and Table 02 shows two national level definitions for MSMEs in Sri Lanka. Presently, these two definitions are widely used by many organizations and scholars in Sri Lanka for their purposes.

Table 01: MSME Definition

Major Economic Sector	SME Group	Criterial (No. of Persons Engaged)
Industry and Construction	Micro	1-4
	Small	5-24
	Medium	25-199
	Large	200 and above
Trade	Micro	1-3
	Small	4-14
	Medium	15-34
	Large	35 and above
Services	Micro	1-4
	Small	5-15
	Medium	16-74
	Large	75 and above

Source: Economic Census 2013/14 (2015), Key Indicators of Industry and Services Sector, Department of Census and Statistics (Press Release).

Table 02: The Defintion of MSMEs

Size/Sector	Criteria	Medium	Small	Micro
Manuafacturing	Annual Trunover	Rs. Mn. 251-750	Rs. Mn. 16-250	Rs. Mn. 15 or less than Rs. Mn. 15
	Number of Emplyees	51-300	11-50	10 or less than 10
Service Sector	Annual Trunover	Rs.Ms. 251-750	Rs. Mn. 16-250	Rs. Mn 15 or less than Rs. Mn. 15
	Number of Emplyees	51-200	11-50	10 or less than 10

Sources: National Policy Framework for Small and Medium Enterprise (SME) Development (2017), Ministry of Industry and Commerce.

Present State of Sri Lankan MSME Sector

As mentioned in the previous section of this article, MSME sector is the backbone of any country or any economy. It is not because of the number of people employed in them or the value addition to the national economy, but it supports a country to solve many issues in the country. Therefore, any country tries its best to promote and protect her MSMEs through deferent strategic and policy initiatives. Enterprise Sri Lanka was one of them recently developed and launched by the 2015 to 2019 Government. That Government expected to develop 100,000 SMEs through this programme by mainly providing loans to prospective entrepreneurs. Many former Governments who ruled the country had similar type of programmes such as Wasanthaya, Gramashakthi, Gamperaliya, Divi Neguma in the past. However, they were failed due to many reasons. Thus, Enterprise Sri Lanka programme was also had the same risk of failure since it was mainly focus on giving loan to entrepreneurs rather than developing the mind set of people to become an entrepreneur. However, the recent Governments has not yet launched new programmes to develop the country's MSME sector. In the future, it can be expected to have a national wide programme to develop MSMEs in Sri Lanka.

According to the Economic Census 2013/14 (2015), there are about 1,019,681 businesses in Sri Lanka. Out of it 99.2% businesses are MSMEs. The micro, small and medium businesses account for 91.8%, 7.0% and 1% respectively out of the total establishments in Sri Lanka. The employment generation of the MSME sector in Sri Lanka is 44.6%, 17.6% and 12.9% respectively. There are important characteristics of this sector in the way the MSMEs are scattered around the country. Out of the 1,019,681 business units, many of them are located in the Western Province and Gampaha District has the highest number of industrial establishments in the Western Province. According to the Census of Industries (2003/2004) Kurunegala, Gampaha, Colombo, Kandy, Kegalle, Katutara respectively have the highest number of industrial establishments in the country. Therefore, it clearly shows that there is a disparity of the distribution of MSMEs in the country. In fact, they mainly located in the Western Province and around the cities in other provinces. Hence, the policy makers must look into this matter as well when promoting and developing the MSME sector in the country.

The statistics of the Department of Census and Statistics Sri Lanka clearly shows the value addition of the MSME sector to the national economy is around 31.8% when compared to the large-scale business sector in the country. In Sri Lanka MSME sector contributes to the GDP by 52% and also, they are 99.8% out of the total establishments in the country. The MSMEs also generate 45% of the total employment in the country. Following Table 03 shows the above data very clearly.

Table 03: Number and Percentage of MSMEs in Sri Lanka and their Contribution to Employment Scale of the Establishment

Scale of the Establishment	No. of Establishments	% of Establishments	Employment	% of Employment
Micro	935,736	91.8%	1,338,675	44.6%
Small	71,126	7.0%	529,751	17.6%
Medium	10,405	1.0%	386,756	12.9%
Large	2,414	0.2%	747,937	24.9%
Total	1,019,681	100%	3,003,119	100%

Source: Economic Census 2013/14 (2015), Key Indicators of Industry and Services Sector, Department of Census and Statistics (Press Release).
The above data shows that the importance and the critical nature of MSMEs to Sri Lanka. This situation is not only common to Sri Lanka but also common to other countries in the world as well.

Challenges Faced by the MEME Sector Today

There is no apex body to coordinate the activities of the MSME Sector in Sri Lanka right now. It is really a major issue when it comes to policy decision related to this sector. Therefore, it could be noticed that there is a tug of war in this sector at the time of policy making and successful implementation of them. The Industrial Development Board and Samurdhi Movement play a critical role in coordinating the activities in entrepreneurship development and MSME development. However, their involvement is not that effective and enough, due to outdated way of operation and approach. There is no proper data base in Sri Lanka related to MSMEs and their activities. Sometimes, the data and the data bases available are not up to date and they are not reliable too. Even though the Department of Census and Statistics of Sri Lanka has some data and data bases, they are also not clear and up to date in understanding this sector clearly.

This sector is in a pathetic situation today due to the uncoordinated polices adapted to the MSME sector and the uncoordinated polices and lack of national policies is the main issue in Sri Lankan MSME sector. Such policies change from Government to Government and Minister to Minister. There can't see any justifiable reason to change such polices in the country related to MSME sector. The previous Government has implemented Enterprise Sri Lanka project. Long time ago Divineguma Programme" and "Wasanthaya Programme" was introduced. These programmes were stopped with the change of Governments.

In any country protection and promotion of MSMEs is a primary responsibility and task of the Government. However, in Sri Lanka it cannot be noticed properly. The Government tries to apply taxes MSMEs also in the similar way they are been applied to large scale businesses. It is very difficult for an MSME to get a loan even from a public bank. They ask for collaterals and many other requirements to be fulfilled before receiving a loan. Can Sri Lanka encourage businesses MSMEs like this? There are many procedural things to be fulfilled when starting and running a business. Sometimes, English language is a barrier for the MSME owners. They have to fill documents in the English language when applying for a loan or completion. This may be a serious thing for them. They also have to fill many documents when registering their business and opening up a tax file. This type of procedural barriers affects MSME performance in the country. Unnecessary laws and environmental protections have a high negative impact on the MSMEs. It is easy for large scale businesses to align with them. However, MSMEs do not have enough knowledge and funds to maintain some legal requirements imposed in the country. During the previous Government whole Sri Lanka was taking about Singapore-Sri Lanka Trade Agreement and ETCA Agreement between the Sri Lanka and India. There are many other agreements like this. Do they affect the MSME sector in the country? How the Government is going to protect them? There are many low-cost imports to the country mainly from China and India. Therefore, how the Government is going protect our SMEs from the products and services coming to the country under trade agreements and products and services coming to the country as direct imports to the country. This is a valid question one may ask who is truly loved the MSME sector and the county at large. In 1977 Sri Lanka opened up her economy. Therefore, many large scale foreign and local businesses came into action. Therefore, value addition specially; from small industries went down since the contribution came from large industries went up drastically due to this economic policy change. Hence, the emergence of large-scale businesses is a serious challenge for MSMEs in the country in competing with them. The Sri Lankan manufacturing MSMEs are in trouble for long since many people like to start service industries than manufacturing industries. Many people do not like to take a high risk of staring a manufacturing MSME in Sri Lanka. What the Government can do for this? What the public sector and private sector organization can do for this? What the general public can do as the citizens of the country? There are important questions to be raised here. Globalization is a great challenge faced by the Sri Lankan MSMEs. The technological advancement, innovations, telecommunication and transportation development are major components of it. Thus, the MSME sector in Sri Lanka only cannot get away from this cyclone. However, they can align themselves to the world inclinations and run their businesses. The socio-cultural changes happening in the world and Sri Lanka drastically. These changes affect the customer preferences as well. These customer preferences affect businesses; mainly the MSMEs in Sri Lanka. Therefore, social cultural changes are also a major challenge for MSME sector in Sri Lanka.

Main Problems Faced by Sri Lankan MSMEs at Present

The MSMEs cannot get even a short-term credit facility, because the banks or financial institution ask for securities. This is considered to be the main problem faced by the MSMEs in Sri Lanka. The usage of traditional type of technology in some sectors of MSMEs is really a problem faced by them. The cost of production is also very high in the MSMEs when compared large scale businesses or imported products. These businesses use mainly traditional types of skilled labor and they do not have technology based proper training. These businesses use lower level of expertise knowledge and scientific machineries; therefore, the quality of the products is also low. It is difficult for these businesses to compete with large scale businesses since they are weak in many areas. The MSMEs have a lower production quantity and limited market too. Hence, their turnover and income are also low and it may lead to easy failure too. MSMEs mainly depend up on large scale businesses. Therefore, this is serious issues faced by MSMEs. In most of the MSMEs marketer, owner and manager are the same. Therefore, the business could lead to managerial deficiency in the short run and in the long run may lead to bankruptcy too.

Global Trends in the MSME Sector

When it comes to the MSME sector there are many global trends affect to it. The modern types of businesses are coming up in the market when compared to good old days. The usage of information technology, usage of telecommunication, quality consciousness, low cost and attractiveness in the products and service are some of the new features of modern MSMEs. The modern MSMEs try to maximize the customer service as well. They use many computer applications to sell and promote their products. They also use social and digital media to attract customers and sell their products. They prefer online service than offline service. Therefore, it is evident that the modern MSMEs are ICT based and web-based businesses. Not only that, they prefer using credit and debit card as the mode of receiving money than using the hard currencies. The search engines like Google, Yahoo have entered their day today language. These things have affected the Sri Lankan MSMEs also to a higher extent.

Why MSME Sector Needs to be Promoted in Sri Lanka?

There are many reasons why the country must promote MSMEs in Sri Lanka. These reasons have been understood by many Governments, even though their policies were not consistent and effective enough to achieve the set goals by them. The main reason why it is needed to promote MSMEs is; they can be started with a lower capital and a job can be created with a lower expenditure compared to a large-scale business. Therefore, it is very important for the country to look in to this matter and help the MSME sector. They need lower level of infrastructure and lower level of technology to start and run. Hence, it is very import for a country like Sri Lanka to focus on them. The Sri Lanka has a relatively higher unemployment rate of 4.6% (2022). This rate could be reduced by promoting MSMEs in the country, because majority of them are mainly labor intensive. There is trend in Sri Lanka that people transit from village to cities. This can be reduced with the promotion of MSMEs in the country. There is a dependent mentality in the regional people to receive something from the Government free of charge. It was long ago from “Janasaviya” and presently from “Samurdhi”. This type of dependent mentality could be reduced by promoting MSMEs specially, in the rural sector. There is no need for expertise managerial skills for MSMEs to manage the businesses. Therefore, it is easy to start and run the business in any area. There are some people who expect the controlling right of their own destiny. They are very achievement-oriented people. A nation needs more and more such people. Therefore, promoting MSMEs will help people to satisfy their mentality, through which help the achievement-oriented people in the county. There is regional demand for many products and services. It is evident that many products and services are being delivered from Colombo or cities to villages. This is unnecessary resources wastage. It could eliminate, if the country promotes to start MSMEs in the regional level.

Sustainable Development through SME Sector Development

The Sri Lankan MSME sector grows at 2.9% and it is very low compared to the world growth rate of 5.2%. Therefore, the discussion in the previous sections clearly shows that the country must pay more attention for the development of the MSME sector due to many reasons. The sustainable development is that satisfies the needs of the present without compromising the capacity of future generations, guaranteeing the balance between economic growth, care for the environment and social well-being. This can be achieved through the development, promotion and caring the MSME sector in the country. Therefore, the present Government also needs a programme like Enterprise Sri Lanka Programme (it was not successful under the previous Government, even though it was a good concept) to develop the MSME sector in the country. However, with the experience in the past many programmes implemented by different Governments to promote the MSME sector has failed as mentioned before. It is better if the present Government can develop and implement a new programme to develop the mind set of MSME owners than focusing on giving loan to them. Hence, developing entrepreneurial mind set of people comes fist and giving loans to people comes at the end. The COVID 19 situation was the best time for the present Government to initiate this change since that was the time where the MSME sector needs more support and the country needs more contribution from them too. Presently, Sri Lanka is facing a serious economic, political and social crisis. Hence, this is the best time for the Government to initiate new programme to develop the MSME sector in Sri Lanka.

Overcoming Issues in the MSME Sector

The COVID-19 pandemic affected the Sri Lankan economy in 2020 to a larger extent. Since 2016, economic growth has fallen due to a series of shocks such as droughts in 2016 and 2017, a constitutional crisis in 2018 and 2019, and the 2019 Easter Sunday terrorist attack. Economic growth slowed from 5.0% in 2015 to 2.3% in 2019. The COVID-19 pandemic and nationwide lockdown led to a -3.62% contraction of the economic growth rate in 2020, which severely affected most economic activities, including MSMEs. As a result, the Government, chambers, banks, Universities, ministries and other related institutions which support the MSME sector must come together and support the MSMEs at this critical juncture. This cannot be done only by the Government. The support of everybody in the country is needed. The professional bodies like AAT, CIMA, CMA, ICASL also can play a critical role here by giving their knowledge to the MSME sector. However, it is better to know what are the supports that can provide to MSMEs in Sri Lanka to come out from the present situation in detail. They are:

i. It is evident and proved by many studies that the main issue with the MSMEs is raising funds for them to do business easily. However, they do not have collaterals or securities to keep with the bank to get loans. The Government and the banking sector in the country can help in this regard. Even the Central Bank in Sri Lanka can play a major role in this regard.

ii. There are many procedural issues for MSMEs to face when it comes to registration and running their businesses. These rigid procedures can be made easy for them.

iii. As we all know 40% of the MSMEs are not registered ones in Sri Lanka. The Government can take initiative to register them and include them to the formal sector through which the all MSMEs can enjoy the benefits given by the Government.

iv. The MSMEs do not have enough technological knowledge in Sri Lanka. They are not IT based businesses. The Government and the institutions which support the MSME sector can help in this regard.

v. These days we see that the MSMEs a coming out with many creative and innovative solutions in their businesses. The Government and the institutions which support the MSMEs can help them to be more creative and innovative to achieve the competitive advantage.

vi. It is clear that in MSMEs human resources is not capable enough to face the new challenges in the modern business environment. Therefore, capacity building of the human resources in MSMEs can also be done during this period with the help of Government.

vii. It is evident that in Sri Lanka there are about 3000 exports oriented MSMEs. They contribute to the country's export income by 5%. However, this amount is not enough. This can be increased in terms of quality and quality too. The Government must try to make them more competitive. Their value audition can be increased. At the same time Export Development Board (EDB) type of Governmental organization can play a major role here.

The Government has supported the MSME sector during the pandemic period. They are not enough to recover them issues in the MSME sector. Therefore, some more things to be done not only by the government but also by other parties who are interested in the MSME sector such as mainly the banking sector in the country.

The Banking Sector in Sri Lanka

According to Asian Development Bank, (January 2019) the banking sector dominate the finance sector, accounting to 60% of total finance sector assets. The government has significant control over the banking system, with two state-owned commercial banks accounting for 35% of the system's total assets. At the end of 2022, the banking system consisted of 30 licensed banks—24 licensed commercial banks (including 11 branches of foreign banks) and 6 licensed specialized banks. The asset base of the banking industry expanded by Rs. 2,257,300 million (or 13.34%) to Rs. 16,923,564 million in 2021 compared to 2020. The gross nonperforming loan ratio was considerably increased and reported at 10.9% (Stage 3 Loans to Total Loans and Advances) by the end of third quarter of 2022.

Support of Banking Sector to MSME Sector in Sri Lanka

Most banks consider MSME loans as a strategic priority in the medium and long term to avoid a price competition for the prime customer segment. Banks have been expanding their network and accessibility over a long period of time. According to Asian Development Bank, (January 2019) in 2017, 43 new banking outlets opened, increasing the number of bank branches to 6,227 island wide. However, most banks are still risk averse in their lending and strongly conscious of collateral. Inadequate collateral, a lack of understanding of genuine MSME-oriented banking practices, and limited financial innovation in factoring are serious issues for lending in Sri Lanka's MSME sector. The Regional Development Bank (RDB) is one of the few banks with an extensive branch network covering the entire island, whose mandate is to improve living standards by providing accessible and affordable financial services to micro and small segments in rural areas. The RDB's service delivery which is especially designed to cater to micro and small enterprises, such as frequent follow-up of customers by officers, makes RDB stand out among other banks. In addition to RDB, almost all commercial banks and licensed micro finance institutions support the MSME sector by providing loans to this sector. However, Commercial Bank PLC has provided the highest amount of loans to MSME sector during last a few years according to news reports published recently. In addition to Commercial Bank PLC, two Government banks are also leading in providing loans to the MSME sector.

Importance of Banking Sector Support to the MEME Sectors in Sri Lanka during the Crisis Situation

As mentioned before that Sri Lanka has been facing many crises over a long period of time. However, COVID 19 Pandemic and present economic, political and social crisis has affected the MSME sector to a larger extent. Despite the pandemic, economic, political and social crisis, banks are still in the process of increasing lending rates up to 30% (approximately). Despite the COVID 19 pandemic, economic, political and social crisis, banks still increased lending, with an 11.9% growth in loans outstanding in 2020, primarily due to COVID 19 relief. However, the nonperforming loan ratio increased to 4.9% during the same period (in 2022 this has increased to 10.9%) from a low of 2.5% in 2017, suggesting some deterioration in credit quality. According to Asian Development Bank (December 2021) MSME loan disbursements increased at a deepened annual growth rate of 12.3% for reporting commercial and specialized banks during 2014–2018. However, MSME access to bank credit remains limited. In 2020, they held 11% of total bank credit, equivalent to 5% of GDP. This remains a serious barrier to MSME growth. MSMEs do not have enough collaterals to obtain loans. This fact has been highlighted at the beginning of this articles. Hence, the banking sector only can not face this issue. Consequently, the Government intervention is necessary at this juncture to protect the MSMEs, banks and depositors in the banks.

Conclusions

Sri Lanka has been facing many issues over a long period of time. However, COVID 19 pandemic and present economic, political and social crisis is paramount out of them. As a result, the impact of these scenarios has affected to many spheres in the country including the MSME sector in Sri Lanka. The Government and the banking sector have been supporting the MSME sector to come out from the issues faced by them during this crisis over last a few years. The banking sector helped the MSME sector amidst many difficulties they are facing to promote the MSME sector in Sri Lanka. The Sri Lankan Government support the banking system to support the MSME sector in Sri Lanka during the crisis situation, amidst many difficulties and loop holes. However, the banking sector can support more to the MSME sector with the support of Government for the development of the MSME sector.

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FINANCIAL INTERMEDIATION RE-DEFINED ......!

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Business environment in New Normal situation

The dawn of the second decade of new millennia is different from the previous ones we have experienced in our lifetime. The reason is that it brought us to our knees at the very outset, thanks to the Covid-19 pandemic.

The degree of intensity of the pandemic was felt across the world towards the beginning of 2020 when it gradually spread to all continents from the far east.

Sri Lanka is no exception, starting from February 2020, the spread of the disease developed to an epic proportion in September and October 2021.

In addition to that the country has experienced its worst social unrest since independence which led to the disruption of work, businesses, schools, and universities repeatedly. Consequent to that, the shortage of fuel has caused enormous hardships for businesses to continue with normal activities.

Another noteworthy factor, the Headline inflation, as measured by the year-on-year (Y-o-Y) change in the National Consumer Price Index (NCPI, 2013=100)1 increased to 73.7% in September 2022 from 70.2% in August 2022 which is the first of its kind in Sri Lanka since independence.

This increase in Y-o-Y inflation was driven by the monthly increases in both Food and Non-Food categories. Accordingly, Food inflation (Y-o-Y) increased to 85.8% in September 2022 from 84.6% in August 2022, while Non-Food inflation (Y-o-Y) increased to 62.8% in September 2022 from 57.1% in August 2022.

The net result of all these indicators boils down to a very hard fact. The life of an average Sri Lankan becomes so unbearable, and the business environment is no better than what it used to be just two years ago. It has been observed that many wayside boutiques to mid-size businesses closed their doors at short notice due to a shortage of raw materials, high cost of labour, and scarcity of fuel which restricted transport.

The growth trajectory of the Sri Lankan economy

Until 2019, Sri Lanka had been on a growth trajectory which is evident from the data in the table below. The main reason being, despite the ongoing war in the country mainly confined to The North and East parts of the country nearly for three decades, the tourism industry had not been affected badly, except for a short period when there were bombings, occasional imposing of curfew, etc. to just to overcome the situation. At the same time, Colombo and the suburb hardly had any peaceful disturbance, where it was a situation of business as usual. Against this backdrop, one could logically conclude that the businesses had enough opportunities to prosper sans exchange rate fluctuations and policy inconsistencies in key economic areas.

Sri Lanka - GDP Growth (annual %) 2010 - 2022

In the recent past, the real growth of the economy of Sri Lanka made considerable progress, especially just after the war. Thereafter, the growth has been stalled but the expansion of credit to the domestic sector continued growth.

All in all, the financial sector had to play a key role in the expansionist money supply of the country under the purview, where lending rates have been at the lowest level which some analysts believe was an artificial situation.

Apart from the apparel sector, other than tea and rubber, the country has not witnessed any significant expansion in the industrial base during the ensuing period. Even though some big construction projects have been commenced during this period including Port City, the real benefit to the economy is expected in the long term which may depend on the global business climate in the time to come and the winds of trade.

All signs indicate that there could be a very minimal growth in the economy which would be the norm in the near term.

Having briefly discussed the past, present, and future of the economic outlook of Sri Lanka, now it is pertinent to draw our attention to the heart of the economic dynamics of a country, that is the financial sector.

Financial sector dynamics in Sri Lanka

The new market-oriented liberal economic model introduced in the mid-1970s continued for almost four decades with its ups and downs. The biggest beneficiary of this new dynamic happened to be the financial sector, which had undergone a paradigm shift with the assistance of information and communication technology. The once dogmatic financial sector mainly operated by the government saw a new lease of life with the entrance of foreign financial sector giants along with new financial institutions with private ownership in Sri Lanka.

For ease of in-depth analysis, the focus of this article will be on Banks in Sri Lanka and their present and future activities, which is the significant contributor to the overall performance of the financial sector of the economy.

According to the report published by the Central bank of Sri Lanka titled Economic and Social Statistics in Sri Lanka 2020, the banking density of Sri Lanka has increased from 22.4 in 2010 to 27.2 in 2019. The same statistics according to the report published in 1980, the banking density was 0.41. This is a significant achievement compared to a bygone era in banking.

With the dawn of Covid – 19 era, the banks had to cut their physical operations largely since it was considered as facilitating the spread of the disease. At the same time, the shortened banking hours had significantly curtailed the operations of the banks. Apart from that some of the industries which were hard hit by the pandemic, i.e., Tourism, were given concessions to pay loans obtained from the banks.

However, the worst situation came when the country finally accepted bankruptcy with a sovereign default in the first half of 2022. When the country was without any foreign reserves the banks had no way of facilitating international trade and that led to a scarcity of goods as well as a breakdown of the credibility of the local banks in the eyes of the international community.

During this period the change of the Head of State and painful reforms required to bring the country back on track commenced, and we are still on the road to recovery. Though the scarcity of goods is not that evident at this time, still the country is far away from the safer pasture. In this context, the government has declared an increase in taxes where the financial institutions are to be taxed almost 50% of their profits to boost the revenue collection of the government.

The other noteworthy factor visible at the moment is the migration of skilled workers of Sri Lanka, as well as young people who are active participants in the economy of the country. Accordingly, the results published by few large banks show the degree of non-performing levels as well as low return on assets of the banks. The NPA's has increased to a level of 5.6% as at 30th September 2022, while the year end results would show further deterioration in the credit quality of many banks. he banks in the country now need to carefully analyze their operational model and change quickly.

Let's have a brief look at the present situation in the Banking sector.

The banks have made significant progress in the investment of digital technology. However, that method is no longer feasible since the return on assets of the banks is considerably weak. Given these circumstances, the banks are left with one option, which is to reduce operational costs and increase productivity levels significantly. Now the question is what models would work in Sri Lanka.

Getting along with mobile operators going to be more practical since such models have worked in countries like Nigeria. As a move towards rationalization of operations, the banks could think of following operational models.

1. The towns where many branches of the banks are found can be brought under one roof with multiple operators giving their services. The costs of operations can be shared following a pre-agreed formula.
2. Merge a few small banks with the large banks to achieve synergy in the long run.
3. The costly equipment like ATMs to be pooled and the now existing common network to be expanded with the help of independent ATM operators who will ultimately provide both ATMs and cash replenishment service.
4. Consider implementing the franchise model for existing branches to be fully outsourced, which of course requires certain laws to be changed. The location can be used to provide other services also like mini supermarkets, charging stations for electric cars, etc.

Conclusion

The banks are required to look at its traditional operations immediately and implement measures to bring down the costs in the short run whilst improving the efficiency and speed of delivery of their services. Remember, now this industry is shifted to a situation of more like "do or die".

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Appropriate Mix for the Economic Prosperity

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After the announcement of the non-payment of its international debts on the 12th April 2022, Sri Lanka practically became a bankrupt state.

While the facts are evident and known, that lead to the situation, it has created an opportunity to reflect and correct. The wrong decisions; wrong timing, wrong investment, wrong priority, wrong model or method, too many investments with no estimate of ROI, are accountable to the present status of the balance sheet of the country.

Politicians will blame each other and give various reasons for the prevailing conditions, but the victims will always be the public who has to pay the price with enhanced taxes and price escalation of goods. A country which was self-sufficient on agricultural produces, the present decline in the sector is disheartening. Over the years, Sri Lanka failed to reap the benefits of the unparalleled ecological advantages.

Timely and prudent adoption of change

In adopting change and technology, Sri Lanka should not blindly follow other countries, but learn from them, localise to suit the local needs and the environment. The fourth Industrial Revolution is the current and developing environment in which disruptive technologies and trends such as the Internet of things (IoT), robotics, virtual reality (VR) and artificial intelligence (AI) are changing the way we live and work.

For example, globally, the agriculture sector is modernized and many methodologies are adopted for efficient planting and harvesting. The world is moving away from the usage of heavy fertilizer and pesticides and embracing the importance of organic food for the human health. However, this cannot be achieved overnight. the agricultural industry has to progressively introduce organic fertilizer without disrupting the production flow abruptly, specially, in times economies have rely on its own to produce more at times of supply chain disruptions.

Netherlands having strategically identified the geographical and ecological limitations have provided efficient solutions to develop a robust process of producing agricultural produce The success story of Netherlands is encapsulated in the below quote written by Mark Hillsdon on May 28, 2019

“The memories of famine in wartime Holland helped to power a revolution in Dutch agriculture, explains Berry Marttin, an executive board member at Rabobank. “After the war, we were incredibly successful in producing quality, affordable food and have now grown into the second-largest exporter of food in the world,” he says. Dutch agriculture, is running up against its ecological limits, with soil quality and biodiversity flatlining. But now moves are afoot to change this, as banks, farmers, food producers and conservation groups come together to put agro biodiversity on the menu.”

It is of great importance to implement, feasible policies for the agricultural sector. Sri Lanka enjoys many advantages over a country like Netherlands. The ability of farming round the year poses great potential for Sri Lanka with right strategies and policies. . Fruits and vegetables are an export crop with high potential to earn foreign exchange

Dole, the banana grower in Costa Rica, Ecuador, Colombia, Philippines, Guatemala, Honduras, Peru and Dominican Republic, has partnered with many countries setting up subsidiaries to develop pineapple plantations. A survey by the Census and Statistics Department has revealed that only **as little as 1.7% of the agricultural households n has received formal training in agricultural activities, a serious challenge** to increase productivity. Further, even if there was training it was limited to less than a month. .

The European Union is funding Rs. 810 million worth of Technical Assistance for the Modernisation of Agriculture Program (TAMAP) in Sri Lanka, supporting sustainable and productive agriculture.

Promotion of agricultural exports; researching existing systems and practices of central and provincial agricultural ministries to ensure better planning; budgeting & policy improvements; and using statistical systems to monitor and assess the impact of the OAP's implementation are key areas targeted by this programme..

This would improve competitiveness of Sri Lankan exports by maximising synergies with ongoing trade-related assistance such as GSP+, promoting organic produce through certification and labelling, digitalisation of supply chain and traceability and developing an incentive scheme for private investment. Team Leader - Public Sector Capacity Building Expert, TAMAP, Dr. Christof Batzlen said, "Developing a viable and vibrant agriculture sector presents a significant market opportunity for the private sector and our farmers in Sri Lanka. Mainstreaming farming as a business among all farmers ranging from smallholder farmers to large estates is a must to ensure sustainability and an efficient, effective, and competitive agriculture sector in Sri Lanka." The Head of Cooperation of the EU Delegation Frank Hess said, "TAMAP will help to bring more income to the farmers and better and healthier products to the consumers".

Census and Statistics Department survey and the EU study (2019) reveals that that Agriculture not challenging but the methods of farming.

If correct strategies are put in motion, agricultural sector has great potential to significantly contribute to the economy.

Industries or Agriculture?

Ceylon Steel Corporation, along with Ceylon Tyre Corporation and Ceylon Sugar Corporation, Ceylon Ceramics Corporation, Sri Lanka Cement Corporation, Sri Lanka Paper Corporation etc., were established during the period 1960 -1965 under the rule of Premiership of Sirimavo Bandaranaike Most of these During the period of 1970 – 1977, due to strong restrictions on imports created opportunities for local industries, and both agriculture and Industrial sectors added great value to the economy.

What went wrong - Agriculture, Industries or Policies?

During 1970 - 1977, most of the industries were profitable due to import restrictions and were operating as state owned monopolies. Due to few internal and external reasons the industries experienced a downfall. The first factor was an internal, which could have been controlled, the state-owned monopolies never wanted to produce of high quality goods and satisfy the clients despite charging high prices.

Also, the supply was lesser than the demand, leading to serious level of corruptions and favouritism. The second reason was, abusing of these profit-making organisations as sources of employment for supporters of the politicians, who overloaded these organizations with unskilled labour. Another reason for the down fall was appointing incompetent personnel for key positions at high salaries.

During 1977 – 1978 under the rule of J R Jayewardene there was a complete turnaround in economic policy The economy was opened for market forces creating an environment conducive to foreign and local investment, with the objective of promoting export led growth shifting from previous policies of import substitution.

This policy change was the main reason for the downfall of the local industries along with due to few local and external negative factors that could have corrected.

Hence, wrong policies end up creating substantial economic turmoil and decline. Lack of professional decision-making deters the progress of any sector.

To overcome the worst situation faced by Sri Lanka, it requires to reengineer the processes by adopting new technology and minimise cost against promoting people intensive organisations. Fundamentally, only two options available to increase profit. Increase prices or reduce cost.

With the right kind of motivational incentives and policy changes, there is a greater possibility of creating high level of efficiency in providing improved service to the nation by the same lot of staff. Lack of this aspect has led the state organizations discharge bad service and lower productivity.

Contribution of the SMEs' and MSMEs'

The contribution of MSMEs to the Gross Domestic Production (GDP) and employment generation is quite significant who accounts for an estimated level of 90% of the enterprises in Sri Lanka. The contribution of MSMEs is so much significant though data is not available. Yet the female participation is significantly low, as Lack of statistics itself is a factor that highlights the negligence of this sector.

T-the contribution of this sector to the economy is so vital and immediate attention is required to develop entrepreneurship in Sri Lanka. Serious attention from the government and the bankers would produce many entrepreneurs as against a three-wheeler driven economy.

Sri Lanka is richly gifted with many natural resources; excellent climate- high average rainfall, T fertile and suitable land for variety of crops, and hydropower to a certain extent. Also, a rich and vast fishing resources larger than the land. The mineral resources; Graphite, Ilmenite, Rutile, Zircon, Quartz, Feldspar, Clay, Kaolin, Apatite (Phosphate Rock), Silica Sand, Garnet sand, Mica, Calcite and Dolomite provide greater opportunities for industrialization.

Importance of a clear Vision:

We should be very clear about who we should be amidst of low population growth; the education level, skill migrate aging population etc.,

We need to be prepared for the realities; less workforce for labour intensive sectors; agriculture, construction, industries etc., Diverting the 1.2 million young three-wheeler drivers to production sector will add much more value to GDP

The successive governments never had a policy in developing youth as entrepreneurs in agriculture or industrial sectors. The political policies were directed more towards earning foreign remittances by sending people out of the country. A clear example of the misdirection of our politicians who in making policies.

Solutions and Opportunities

The thinking of 'people or the population' as a liability has now changed to be accepted as the most important resource of a country. China, India and some of the African countries are gifted with the largest in-house work force. A curse has now become a wind fall or an opportunity.

However, the modern world does not only depend on agriculture or industries alone. Services sector has leap-frogged in growth creating employment and wealth.

Value creation in the economies have new trends, Amazon has created a market value of USD 1.5 trillion, Apple USD 1.9 trillion and Microsoft 1.5 trillion USD. UBER became a major taxi company and today they are one of the most prominent food distributing companies.

The world is changing so much with the technology and the present-day Industry 4.0 initiatives. especially after the Covid 19 and the major supply chain disruptions many countries are investing to re shore the production facilities back in to their counties. This is an opportunity for Sri Lanka to join hands with large producers in supplying components for their production under Industry 4.0 revolution and become their global value chain partners.

Finally, I would like to end this article with a quote from Joe Biden the president of the United States of America. "Corruption is a cancer; A cancer that eats away at a citizen's faith in democracy, diminishes the instinct of innovation and creativity"

This is an apt quote relevant to Sri Lankans who never took the trouble to stop corruption and bring back good governance. We do not have a major economic problem. We do have a serious governance problem in so many areas of our economy. If all of us, as Chambers, Bankers and Business Community can come together restore good governance in the country.

Keerthi Gunawardane

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First your health, then your company in a bankrupt Economy...!

Dr Rohantha N. A. Athukorala
Alumnus Harvard University

- **Half a million households have lapsed from 17 product categories**
- **Post new Payee Tax system, another 35% households will be impacted**
- **87% of SL senior managers are overweight, diabetic prone or having high blood pressure due to work pressure and financial issues**

The latest data reveal that almost half a million households in Sri Lanka have moved out of consuming seventeen categories of products due to the pressure on the purse. Almost 1.2 million households have lapsed on Canned Fish, 1 million households on Milk Powder, 0.8 million households have moved out on Regular Noodles, Toilet Cleaners, Yoghurt, Butter/ Margarines, Shampoos. 0.6 million households on Malted Milk and Cheese. 0.5 million households in Sanitary Napkins, Handwash, Fabric Softeners, Soup Cubes and Ice Creams. This is an indication of the challenges that a typical housewife is facing in putting food on the table. A point to note is that Sri Lanka has around 5.8 million households which means that almost 20% of them are struggling to live.

311,460 people left Sri Lanka

In this backdrop, we see that almost 311,460 people have left the country in the year 2022 which is the highest migration that Sri Lanka has registered in three decades. We have not seen this behaviour even in the height of the war, these are indications of the issue at hand. One of the key sectors affected is the IT/BPO industry which is reporting an attrition of almost forty percent which is a serious issue given that this industry is poised to be a five-billion-dollar industry in the next couple of years. Currently the industry generates around $1.8 billion dollars in export revenue to Sri Lanka.

Another study carried out on corporate executives, has revealed that almost 87% of Senior Managers are overweight, diabetic prone and having high blood pressure due to the increased work pressure and financial issues personally.

A research insight was that until Q3-2022 the situation was manageable, even with the inflation in the eighties but the Q1-2023 reality would be very different. The ramifications on the proposed electricity tariffs and increased Payee tax will wipe away another thirty five percent households from consuming the basic categories of food products is what business analytics experts are forecasting.

Half a million HH have stopped purchasing

At a recent conference recently Kantar Research Sri Lanka reported that almost half a million households have moved out of purchasing 17 items which includes households in the socio-economic groups of A and B. Which means that the affluent families are also feeling the pressure of the escalating prices and reduction in disposable income. A best case in point is that from 48% of households in the top end of categories of the society (A and B Socio Economic Groups), who were purchasing more than twenty five categories of items - during a month - - had had reduced to 23% as at end of last year. This is a reality that people are forgetting. It is only the super-rich that are clogging the restaurants of Sri Lanka or booking the weekend in the star car resorts of the country. The worst effected is the 'upwardly mobile young professionals' the data reveals.

In other words, the overall quality of life of a typical Sri Lankan is fast deteriorating. Which explains the impact to health issues like cholesterol, blood pressure and diabetics which is sweeping across the upwardly mobile household segment of Sri Lanka.

Healthy body makes better decisions

A study done by Harvard University indicates that if corporate executives are healthy, it leads to better decision making which in turn will have an impact on the overall wealth creation by way of increasing brand value and profits to organizations. The logic being that when an executive is more long-term driven on health, it leads to making business decisions on the future business growth rather than short-term gains. This gave birth to a Harvard concept called Corporate Athletism which some of us were exposed in our study programmes at Harvard University.

The acid test was when we were asked to do a Thirty-minute treadmill work out and the recovery level was monitored. The results were interesting. There were young executives whose age were numerically twenty-seven years but their body was of a fifty year old whilst there were forty year olds numerically but their bodies were much younger as much as thirty years as they were careful on their food intake, alcohol and were diligently focused on doing exercise.

Corporate Executive vs being an Athlete

Jim Loher from Harvard University opines that if a corporate executive is to work at a high energy level equivalent to a professional athlete, the only way out is to increase the stamina levels just like a top athlete of today. For instance, if we take a tennis super star like Novak Djokovic or cricketer like Pathum Nissanka, the challenges they face in the sports field are equal to a top corporate executive in office.

For instance Tennis star Novak Djokovic's daily routine includes serving hard, positioning the returns with some sharp cross court passes, followed up with some aggressive play at the net, and then coming back to take a lob at the base line. The next challenges he faces are questioning wrong line calls by the judges and following it up by engaging the crowd, to maintain the off-court relationship. It is also customary that a rough media conference happens post-match that adds to the pressure on the player.

On the other hand, if we take a typical corporate executive, the challenges during a working week are similar. Multiple decisions haven to be taken by analyzing numerous sources of .. One wrong decision can cost the company millions of rupees. Making presentations to get new businesses, briefing the media on corporate affairs, engaging the policy makers to influence policy direction and finally ensuring that the humour is maintained so that the spirit of the work place can be kept vibrant, usually forms the chorus of a top performing executive today.

This routine can be very demanding mentally and it is very similar to a high performing athlete of today, which means that a corporate executive must be as fit as a top performing athlete. Let me dig deeper into this concept.

The difference

Whilst there are similarities, there are also many dissimilarities between the two. A top-class athlete like Djokovic or Pathum Nissanka competes only once a month and at may be eight Championships for a year. On the other hand, a corporate executive will have to perform each day for almost 8-hour duration at the peak of his/her performance.

Another difference is that an athlete takes up to a three-month break for a year whilst a corporate executive will get a maximum of two weeks off. The lifespan of a top athlete is between 10-15 years (if one is lucky) whilst a corporate executive will have to perform for 40-45 years starting life at the age of twenty and then working till sixty years of age.

The Havard study summarizes that a corporate executive of today needs to be fitter than a professional athlete if one has to be competitive in today's corporate world. They call this Corporate Athletism.

Corporate Athletism?

As per the scientists who originated the concept of Corporate Athletism Dr. Jim Loehr and Tony Schwartz identified four areas that impinge the behaviour. They are physical capacity, emotional capacity, mental capacity and finally spiritual capacity. Let me throw more light on these areas.

Physical capacity development

Physical capacity is essentially the capacity to continue working for long hours at peak performance. How one can develop this is by doing a 45-minute brisk walk three times a week. The objective is to get your heart beat up to 120 beats per minute. Then, followed up with a 15-minute routine that includes stomach exercises and stretching. In essence it's only one hour's dedication that is required. Maybe the venue can be the Independence Square where the motivation levels tend to be high too given the different shapes and styles in attendance. The rest of the two days must include a light weight training session so that energy can be built. The maximum weight should be a 50 kg. The objective is to stretch the muscle up to a point of tearing and then follow up with a rest day so that rebuilding takes place. Once this becomes a ritual, it's very interesting. May be joining a gym and getting a trainer's assistance can help.

Emotional capacity development

The next building block to become a corporate athlete is working on one's emotional capacity. This is where a close relationship with a human being is a must during a working day. All it takes is a two to three-minute telephone call where an intense closeness has to be achieved, so that certain positive hormones get elicited. If this is not done research reveals that there can be emotions that get into the system such as self-pity and boredom that elicit negative emotions, which are very harmful to health. Unfortunately, most high-performing corporate executives feel that giving into one's emotional side is a feminine trait or moreover a weak characteristic that should not be exposed to others. Research also reveals that if one wants to be a corporate athlete in today's high-performing environment this second building block of developing emotional capacity is a must. The key thing to remember is that these building blocks must become a way of life in a busy executive's working day. In other words, it has to become ritualistic behaviour, if one is to get into peak performance for long duration.

Mental capacity development

The next skill that is required to be developed is called knowledge management. This has to be done daily. All it takes is reading one article that is mentally stimulating and thereafter reflecting on that for just two to three minutes. This can be done in the evening and all it takes in total is just a 20-minute time block. Once again, it's all about habit formation. This can be also done by watching TV programs such as 'The Buck Stops Here' on NDTV or by watching CNN's 'Boardroom Discussions' where a top global CEO is interviewed for success stories in business.

Spiritual capacity development

The last building block, but remember that this is not about one's religion. It is more to do with understanding the values which are deep within you. For example, you may cherish the last burst of sleep between 6-7 a.m. in the morning before you get dressed for work. But on the other hand, if you have to drop your son to school and this is the quality time that you engage with him, then waking up at 5:45 a.m. to achieve this objective will not be an issue. The challenge is to find out the deeper reasons for your behaviour that motivate and excite you. This is what spiritual capacity development is. It's very important to become a corporate athlete. The challenge once again is making this a routine in your working week.

Next steps

By now, you have a fair idea of the building blocks that will make you a 'Corporate Athlete'. You also know what areas in your life need to be developed, so that you can become a corporate athlete.

Practicing this is the next step. You have to make it a ritual so that it happens naturally. You need to come to a stage where if the gym kit is not in the vehicle, you will feel you are not ready to leave home. Also, you will come to a point where foregoing a cocktail party to do your weight training schedule is not a choice anymore but a way of life. At this stage you can be termed a 'Corporate Athlete' and then you will suddenly experience that working at high peak performance is equal to playing a game. Then you have really mastered the art of being a 'Corporate Athlete'. To summarize, it amounts to three days cardio walk and then a two-day weights schedule with two days being rest after each weight training session. A few more tips in the life of a corporate athlete:

1) Have five to six small meals a day (maybe a snack at 10 a.m. and 4 p.m. is all it takes). Today many practices intermittent fasting which is ideal but monitor your sugar levels as there can be ramifications on the habit of fasting.
2) Develop a routine time for sleeping with six to eight hours of sleep a day being a must.
3) Make a five-day work-out a routine during the week, a ritual.
4) Be proud that you are a 'Corporate Athlete' – do not be shy to practice emotional capacity building.

Become a Corporate Athlete soon, so that you can be part of the "Miracle of Asia" a proposition that Sri Lanka has the potential to become.

(The author is a 2nd Dan Black Belt in Karate whilst his son is ranked 17 in the world in Karate. A marketer by profession with 17 years' experience at Unilever, Reckitt Benckiser and Diversey Lever in India. He is a Former Chairman of Sri Lanka Tourism and Sri Lanka Export Development Board. Currently the President of the Artificial Intelligence company for Brand Mapping based out of Bangalore looking after the markets of Sri Lanka, Maldives and Pakistan)

Data Science: The secrets of future success

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Being the buzz word in the 21st century "Data Science" surely attracted the attention largely of the tech audience. However, certain other sectors such as finance, banking, agriculture, and healthcare are in the verge of fully embracing the change that data science can bring to the field; to improve decision making and process efficiency.

What is "Data Science"?

A pragmatic simple definition would define data science as one that is Combining statistical analysis, programming, and domain knowledge to extract insights from data.

Historically, financial systems and understanding of complex data, has been a difficult task. With the emergence of data science and AI, it has shown far-reaching implications for a better future in such industries. In a world filled with infinite number of choices among consumers, stretching across the globe, makes it vital for the providers of goods and services to not only identify but to predict precisely the future demands, trends, preferences of the potential customer base. Human power is limited in effectively and efficiently analyzing large amounts of financial data and demographic behavior to identify patterns and trends, and predict future outcomes. Data Science and AI is now aggressively finding inroads if not near supplementing the human power in this aspect. It facilitates designing, developing, and delivering the solutions precisely to the target audience through informed and data-driven decisions rather than relying on instinct. The ability of forming meaningful reflections out of superfluous flow of information and raw data has enabled the decision makers to respond accurately to the market movements at a lesser cost and faster pace. The profitability, adoptability, competitiveness and faster turnaround ability of organizations driven by data science are leap frogging ahead of many who are yet to brace data science as one of the major strategic components in their resource planning & allocation.

Risk Management, Optimum pricing, faster delivery, efficient allocation of resources, identifying early warning signals, better preparedness for imminent changes is few of the beneficial outcomes of data science. Additionally, data science & AI can be of use to financial institutions specifically in the areas of can help detecting fraud, detecting churn and even streamlining processes on customer due diligence, money laundering etc., with the advancements in Optical character recognition (OCR) and Computer Vision attributes.

Data Science facilitates Predictive modeling, various algorithms enable predicting future trends, such as stock price fluctuations, potential loan defaults, or customer behavior. For example, analysis of previous data on credit card churn, would reveal unique characteristics of specific customers who are more likely to default on their card payments. With this insight, the credit collections team is in a better position to initiate proactive measures to minimize the credit card defaults, implement strict measures in credit sanctioning, close monitoring, and screening of quality customers to ensure a smoother customer experience.

Customer segmentation: In terms of marketing financial products, the customers can be segmented to different buyer personas according to their behavior and characteristics, allowing the marketing teams to tailor products to specific groups based on their likelihood to make a purchase.

Fraud detection: Identifying unusual patterns of behavior and transactions, which can indicate fraud, can help financial institutions protect their reputation from incidents of Money laundering.

Optimization: Prior to finalizing pricing decisions, promotional offers and discounts, on credit card holders, analysis of past data on consumer patterns, response levels, demographic distribution etc., lead the management to formulate the optimum mix of offers or discounts exactly targeting the identified customer segment to increase the profitability.

Intelligent automation: Using Natural Language Processing (NLP) models for intelligent character recognition, it is possible to perform mundane tasks that used to require a considerable amount of time and effort in a matter of minutes. Intelligent software that uses AI models can perform tasks such as data extraction, validation, and document review. This would significantly reduce the human error induced due to manual methods such as document checking during the KYC process.

Intelligent Automation: The path to automate manual processes.

In terms of automation of processes using intelligent automation solutions, a few use cases can be;

Financial report automation: Automating the preparation and timely dissemination of financial reports with improved accuracy, efficiency, and compliance. This reduces a significant portion of analysts' time, which can be used for tasks that require critical thinking & strategizing.

Reconciliation automation: Reconciliation is the process of comparing and matching transactional data between different systems for a given period. Before the invention of automated reconciliation processes, operational staff manually extracted data from separate systems and matched against other system data on spreadsheets. If any mismatches were identified, then it was researched and resolved. Unfortunately, some of the 21st century -organizations still perform the manual checking. Time and resources can be saved by automating the initial check and manual reconciliation spent on reconciling the differences in the information extracted or produced from two different sources.

Portfolio management automation: Institutional investors were inclined to use spreadsheet-driven processes to manage their portfolios back in the day. To stay ahead in a highly competitive and complex market, portfolio managers need clean and up-to-date information. A real-time market sentiment analysis, and price predictions using predictive models, can improve portfolio management.

Risk management automation: The credit risk management process in banks for example, can use data scraping and image recognition tools to easily find personal information needed to mitigate threats like counterfeit documents. These tools will flag fraud, not just for one but massive volumes of applications with lesser time.

Integrating data science in to the fabric of business operations, would make it history or archaic the sending of emails back and forth, circulating memos around divisions, usage of paper-based communication and storing of information without extracting and using only the relevant information. Sitting on top of a mountain of valuable data without a way to obtain insights for better decision making would be a yester year phenomenon to the modern-day organizations who has data science woven into their DNA.

The era of embracing a system where information creates a refreshing insight of different locations, data bases and generating management reports from a few clicks! Sending automated emails when a certain threshold is exceeded, taking off the mundane work such as copy pasting information daily from websites to excel sheets, sending intelligent suggestions by analyzing text within minutes are just a few use cases of using data science and process automation, commonly known as “Intelligent automation” to level up the performance of organizations in the financial industry.

Modern Banking Practices in Dispute Resolution: a compatible ODR in International Trade

Dr. Dan Malika Gunasekera
Attorney-at-Law

International trade has become a game-changer in market economies thus encompassing the traditional rules of cross-border trade with several introductions of new technological means of commerce. While principal roles are played by traders in particular i.e. a buyer in one country and a seller in another, banks play a pivotal role in facilitating their commercial activities ensuring fair play, transparency, and monetary security. In doing so, banks are not only expected to ensure the free-flow of commercial transactions but also take an active role in becoming the virtual buyer and/or the seller of 'goods' transacted between the actual parties to the trade in most instances. It is the reason where banks fall into various disputes having beneficial interest on the subject matter on behalf of their customer for whom an assurance is provided or a benefit is obtained. Unfortunately, banks do fall into various issues in certain circumstances that require their active role in dispute resolution.

Role of a Bank: beyond a simple facilitator

The traditional role of a bank is to facilitate the smooth transaction of the commercial obligation involved within the term of 'consideration' in sales contract. In view of the said, the advising bank and the honouring bank correspond with each other by exchanging the documents against payments. This is the usual practice that the parties in international trade are well aware of, but the banks do have a much greater obligation towards their counterpart in soliciting the transaction involved. It is decided law that the bank's primary duty is to deal with documents rather than with goods, and it is in this background that the bank execute a careful scrutiny on the documents transacted between the parties and their other commitments such as carriage obligation and of the payments under the terms so entered respectively as in terms of international commercial terms (INCOTERMS) and Uniform Code of Practice (UCP). There's much legal authority that the conditions or contents pertaining to goods in the respective transport documentation are not bank's concern, but to apply proper due diligence in its' oversight process of documentation accuracy. For example, a bank is always obliged to honour a Letter of Credit it issues unless its' customer successfully proves fraud or illegality in the transaction involving the traded goods.

It is a common scenario in export-import trade where a Letter of Credit is involved that the goods are consigned to a bank, and that such honouring bank in certain circumstances release payment prior to the discovery of any fraudulent activity related to trade documentation. In such situation, the bank has no other remedy than corresponding with its' counterpart anticipating the final settlement of monetary transaction to the shipper or the exporter at the other end, but has no more the right to avail itself from dishonouring payment.

The need for dispute resolution

In such context, the two corresponding banks have no other means than resorting to resolve the dispute at hand other than by venturing into a self-determined dispute resolution mechanism of a cross-border nature such as mediation, arbitration, or the bitter solution of litigation. Unless, the commercial figure is of such magnitude, most banks rely on mediation methods if not arbitrate in either pre-determined or post-determined forum where one bank will always secure a geographical advantage of a selected forum in most occasion, but a formidable solution is much attainable if handled independently, which is not always the case.

A compatible Online Dispute Resolution (ODR) means is much welcome in a circumstance of this nature where the banks would be in a more comfortable zone to handle such disputes by submitting it to an equally accessible means thus accommodating both the banks to be placed before an online administrator that operate simply as a facilitator rather than an adjudicator of the facts and the law. It is with this intention that ODR system has been developed virtually, but the legal implications seem far yet to achieve a positive outcome. Although, an international convention to this effect is still unrealistic in achieving global coherence; mutual agreements between certain States have proved positive results thus allowing accepted code of practices becoming great saviors of modern banking practices especially involving trade disputes. The UNCITRAL (United Nations' Commission on International Trade Law) Technical Note is one-of-the-kind facilitating legal text on this that let banks understand workable nature of the contemporary ODR system that could help them achieve positive ends. It has specifically referred that "the sharp increase of online cross-border transactions has raised a need for mechanisms for resolving disputes which arise from such transactions, and that one such mechanism is online dispute resolution" in its preamble. Although, the particular text refers to buyers and sellers in international trade transactions, banks can readily take use of this mechanism as parties that come within the credit facilities they offer to their customers or facilitate trade in the name of such customers.

A readily applicable mechanism

According to the Resolution adopted by the UN General Assembly (GA) dated 13th December 2016, the GA has observed that "online dispute resolution can assist the parties in resolving the dispute in a simple, fast, flexible, and secure manner without the need for physical presence at a meeting or hearing", and the Technical Note "recommends that all States and other stakeholders use the Technical Notes on Online Dispute Resolution in designing and implementing ODR systems for cross-border commercial transactions". This in turn would require parties to such dispute design their own model when their dispute been entertained, and in the international banking system, the tendency of meeting such requirement is much feasible to attain with either mutual or universal adherence to a well-defined set of 'Rules'.

Glancing through the specific components that required to be set up in an ODR, one may find that the role of the administrator is uniquely significant. The administrator upon receiving a notice from the claimant through the provided platform that operates as the 'intermediary', but different and separate from the administrator itself, should take steps to inform the respondent of the existence of a claim and require a statement of response in return that should be communicated to the claimant. Thereafter, the process commences from mere negotiation to mediation, conciliation, and then to a facilitated settlement to be entered in the process that ends up in such stage. If not, it would lead to a third stage that the administrator informs the parties of an appropriate dispute resolution means whereby the system enables the dispute be resolved in a more complex manner than of the early stages discussed above. All throughout these processes, the administrator must maintain the principles underpinning the ODR process including fairness, due process, and accountability. As ODR employs a mechanism through the use of electronic communication and other information, and communication technology; certain variation in the application of admissibility, and taking of evidence and their relevance would follow accepted norms highly utilized in the much-developed spectrum of e-commerce-based dispute resolution whereas the burden of proof rely on the conceptual theory of 'proving on balance of probabilities'. It is technically an accepted fact that such balance of probabilities would be based on preponderance of evidence rule rather than any other form, as applicable also in the sphere of arbitration.

Although, a facilitated settlement is always a better outcome in an ODR due to the fact that the banking system operates with much courtesy and reliability between the banking partners globally; it may not be achievable at all instances. In such case where a facilitated settlement cannot be reached within a reasonable time frame, the administrator informs the parties of the final stage outlining the form that it might take. The obvious circumstance would be to thereafter appoint a 'neutral', who is professionally qualified to handle such hearing preferably a lawyer with a legal background but always may not be necessary if it is desirable. Such appointed neutral may thereafter decide on the procedure and other formalities that he may consider to be essential in the process of dispute resolution. This would rather swift to a due process that is similar to arbitration or any other type of legal proceedings, which the Technical Note has not clearly defined.

The prevailing 'ills' of the modus operandi

One may find that the ODR system is quite attractive to a speedier resolution of disputes having fairness and transparency as it generally refers to the international drafters during the negotiation phase of a workable solution in much complex issues arising at international trade disputes, but certain 'ills' do exist in the proper administration of the process involved. Firstly, it is uncertain as to where the ODR leads at a time that a facilitated settlement cannot be reached on consensus, and ends up in a situation where a neutral is appointed as stated above. If the process swifts towards arbitration or litigation, the purpose of having an ODR as a much compatible means is to some extent lost, as we are aware of the present complexities and legal jargon involved in those processes. What we need to be convinced is that the ODR as a readily available option in these kinds of situations encountered in front of a dispute that has arisen should let the parties to convincingly rely upon obtaining a lasting solution with much efficacy so that their commercial transactions are well addressed with a view of ending up commercially peaceful and with proper gain for their banks. No bank would ever want to experience losses in the hands of their customers' money invested in a secured manner within which a bank carries out business affairs diligently. Secondly, the ODR system does not provide clear provisions as to the proper execution of any awards obtained in favour of a bank that is successful in its' claim with much uncertainty surrounding as to the final outcome of a gain. It is mainly due to the fact that the execution of such award is far reaching in its attainment.

Thirdly, the ODR system cannot effectively operate in the absence of any international legal instrument in the nature of a convention and consequently in the absence of any local law in place of a country that requires the enforcement jurisdiction being rightly provided by a local legislation giving further means of enabling the technicalities to be in place. This is of course a huge dilemma in a country like Sri Lanka where the dualist approach is applied in relation to the giving effect to international conventions. Therefore, the international legal drafters should obtain global consensus of future law making in order to make ODR system quite effective in their implementation among countries. Fourthly, the banking system must readily accommodate the effective enforcement of the ODR system with good faith and for the betterment of a more commercially viable dispute resolution process with their international counterparts, but would still require the elimination of the abovesaid ills in order to readily participate in such a formidable exercise.

Concluding Remarks

It can be concluded that the ODR provides a much fair and transparent mode of resolving disputes in connection with the documents pertaining to international trade handled by various banks locally and internationally. But however, the modus operandi seems ineffective to the attainment of the objectives to the fullest in its' presently prevailing structure. Nevertheless, banks as leading facilitators of international trade should act in a much active manner with willingness to cater the needs of the ODR to be placed before them in the time to come. This transition period could well be used to promote the future use of an ODR system, and to put in place all necessary technical means to be compatibly able to carry out a process of good faith. While banks are vested with the obligation to prepare themselves with the developing trends of this nature, international organizations such as the UNCITRAL must cooperate with its' Members States to fully adopt workable legal provisions to enable the ODR system a sound and effective means of dispute resolution in a much required areas of international trade that encourage the role of banking to a higher level of facilitation.

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What is the way forward for Sri Lanka to be an international financial center, post economic crisis?

Rohan Masakorala
Shippers' Academy CEO

Crisis can be an opportunity.

Amidst financial distress global populations reached 8 billion in year 2022. As the world was just recovering from the prolonged Covid 19 pandemic we have now entered 2023, with high inflation around the world driven by commodity prices skyrocketing due to the Russian -Ukraine war continuing, and the post covid market reactions are emerging. The coming years look challenging to the world as recession looms in the west, global growth slow down and Sri Lanka battles a massive economic crisis. However, the crisis will be probably the best answer for the country if pragmatic decisions are taken without further delay.

The world will have to take measures to bring in financial stability through many corrective macro-economic policies during 2023-2024. Emerging markets in Asia will play a key role in bringing in that stability. Sri Lanka being geographically close to India and international logistics corridors, will have to use its advantages if the country needs to reverse its wrong policies that has been dragging in down for well over two decades as it abandoned real reforms of a free market due to political mismanagement. Now the country needs to look at not just reforms but complete overhaul of its policy framework to get into the right track to compete.

India is Sri Lank's biggest opportunity. Poised to grow even under the current global economic circumstances. The world's fifth largest economy, being the world's most populous nation surpassing China will also be the third largest economy by 2050 or earlier. Within Asia, Indian subcontinent has the been the lagging region in economic output and just contributes around 4% of global trade, while having a 22% share of the global population. The fast-reforming Indian and Bangladesh economies are now attracting large amounts of FDI as post Covid trade shifts are taking place as the world experienced serious supply chain disruptions by relying on China alone. With this development, there's going to be capital outflows towards India over the coming years and decade.

This development is Sri Lanka's opportunity. As a small island it has the potential to rise up again as a key trading and a financial hub leveraging on its logistics advantage, just as other small nations/territories like Singapore, Hong Kong, UAE, Qatar in the Indian Ocean region /Asia region. For this to be a realistic transition the country needs to connect to global value chains and supply chains by participating in international trade and opening up the country's borders for free floor of regional cargo and financial services linked to manufacturing and value addition. In this background Sri Lanka cannot afford to be a protectionist nation anymore and needs a modern legal environment with reforms in education and fast action of re-skilling the population if it needs to attract global capital and link value chains. In parallel the country needs to accelerate its trade arrangements with international and regional trading blocks. This has to be done as Free Trade Agreements (FTA), so that investments could be attracted to produce and deliver both merchandise and services in a large scale to the global supply chains and specifically connect India for this purpose and that would be the catalyst for a financial center.

The connectivity through air and sea is a distinct advantage to the island given its location, provided reforms are done in this sector to attract global investors/capita where its ports are well situated to provide and facilitate the growth of trade.

The Ports City- make it work.

The Colombo Port City Project is a short to medium term strategy offering more business-friendly laws and regulations and its targeting international financial corporations to be set up operations. However, this will only happen in an accelerated manner when laws beyond the Port City area are also completely overhauled, and amendments done to the port city law itself. This is commonly known as the corrective eco system to be in place for business to flourish with stability and confidence. The Customs laws, shipping laws, dispute resolution laws, land laws etc. are all arcade in Sri Lanka. The port city needs to be complemented by the mainland laws if it needs to build greater confidence among investors as in isolation it may not deliver the results to the rest of the economy, the lesson is from China itself, where China flowed up with Hong Kong territory and built a national economy that was competitive since 1978.

The policy makers and the business community must realise that Sri Lanka is not the only country which is competing to be in a financial centre or for that matter a logistics center in the Indian Ocean. There are advanced economies in the region that are already having high quality infrastructure and investment policies to attract new trade shifts and capital. Sri Lanka will have to at least match them or go beyond the current environment and service levels and correct the ease of doing business environment for investors to seriously consider the nation. The critical challenge ahead is to build confidence of the investors and the international community given the economic crisis. Location is just one element to compete given the technological changes and consumer patters today with the cyber space connecting the world in a different way today for financial transactions and business.

The opportunity with India

Economic integration with India and other regional markets will be a correct step to bring in financial institutions to Sri Lanka, already late but it is time to fast track trade and services liberalization and partner the region. The Singapore FTA has to be revived very fast as it would be a steppingstone for many markets as Singapore already has over 26 FTA's and India has just entered an FTA with Australia and will be having stronger market access to U.K and European union and others.

India being a vast geography, it has connectivity challenges from east coast to its west coast, and Sri Lanka is situated exactly at the centre of the subcontinent and has best connectivity by air and sea to facilitate trade and services. People movement for business and pleasure at ease is a task for logistics and again the location of Sri Lanka can be the biggest asset, but we have to make that happen through reforms.

Sri Lanka has been talking for a long time of becoming a hub like Singapore, but on the ground little effort has been made to achieve it for decades. It is hoped that the current crisis will help change that lethargic attitude and mindset towards action. The business community of Sri Lanka too needs that change of mindset to partner more greater international partners and welcome foreign investment and capital if a financial hub is to be built.

The task to move towards an international financial center is going to be most challenging, from a $ 3200 per capita economy to take it beyond $ 12000 per capita minimum which should be the immediate target. The challenge is to get the international image and the confidence back again for investors to consider long term projects in the island. Today the global capital is indeed looking for new opportunities as consumer markets are expanding in Asia.

Liking the dollar 100 trillion global economy

The world reached a land marked dollar 100 trillion in 2022 and is poised to double it faster and before 2050.If Sri Lanka wants to capitalize on this and the Asian growth momentum and specifically with our neighbour India, the country needs to rapidly change its current direction and adopt globally competitive best practices. The policy makers must realise the consumer behaviour with the younger generation is changing rapidly and new business models are emerging using advanced technology. Products such as e-commerce and merchandise storage and distribution are areas that have immense potential for Sri Lanka to build a sustainable logistics hub such as Singapore or Dubai, which can then attract the rest of the eco-systems that can build financial institutions in the Port City projects and similar opportunities lie on the east coast with the Trincomalee Port to service the Bay of Bengal region with products such as energy storage and distribution.

However, currently Sri Lanka's macro-economic environment is pretty weak and this needs to be rectified with fundamental economic corrections and the rule of law to be established where international capital can be attracted through such corrective measures, but this will take a considerably a long time as it is expected that the country will take at least another five years to move out of the current foreign exchange crisis. Fundamentally to achieve these targets, political stability and policy stability would be the key ingredients in the short to medium term. Along with it, greater education reforms are a must to be a world class city and a state that would open the eyes of institutions for financial services to look at a serious option in the Indian ocean.

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Digitalization is changing how people interact and do business on a day-to-day basis, and advancements in banking technology are continuing to influence the future of financial services around the world. From retail and mobile banking, to neobank startups (Neobanks are new-age banks without any physical location, present entirely online) They provide digital, mobile-first financial solutions for payments, money transfers, lending, and more, technology has its hand in seemingly every aspect of the banking industry; and, the influence of technology will continue to launch banking into a digitized future. Retail banking, also known as consumer banking, refers to the specific services banks can offer to consumers—such as savings and checking accounts, credit and debit cards, and loans. Consumers' growing desire to access financial services from digital channels has led to a surge in new banking technologies that are re conceptualizing the entire retail banking market.

Future of retail banking

Technology geared toward improving retail banks' operational efficiency is positively impacting the market. According to Insider Intelligence, 39% of retail banking executives say that reducing costs is where technology has the greatest impact, compared to only 24% who say its improving customer experience.

Retail banks are also launching platforms in the Banking-as-a-Service (baas) space to remain competitive. For example, UK neobank Starling used to exclusively offer business-to-consumer (B2C) retail banking services; but, after launching a baas platform, Starling diversified its product and revenue streams, helping it remain relevant in the neobank space.

Future of mobile banking

Mobile banking has become the go-to method for users to make deposits, account transfers, and monitor their spending and earnings—and a key differentiator for banking leaders. Nearly 80% of our survey respondents who have used mobile banking say it is the primary way they access their bank account.

Successful mobile banking options include money management features that help users cut spending and grow savings. Since the onset of the coronavirus pandemic, mobile capabilities is a more significant factor in bank selection among respondents than it was last year. Financial institutions should understand which mobile banking features consumer's value most and where they stand compared to their competitors, so they can pinpoint specific areas to devote the most attention to.

The foremost concern consumers have when mobile banking remains security. The fear of data breach increases the demand for services that keep users' data secure—allowing consumers to place holds on credit or debit cards, schedule travel alerts, and file and review card transaction disputes are some successful security banking features. Online banking, which includes mobile banking, refers to the overall experience of banking through digital channels, including mobile apps, desktop, live chatbots, and more.

Future of online banking

The popularity of mobile banking has surpassed that of online banking, and the overall number of online customers has slowed worldwide. According to Insider Intelligence, mobile banking is growing at five times the rate of online banking, and half of all online customers are also mobile banking users. Despite this growing popularity, some banks still fall short on the demand for mobile tasks, like bill pay and reward redemption, causing them to push users to online banking. However, even this push won't be enough to popularize online banking as millenials and Gen Zers continue gravitating toward the mobile market. Digital-only banks, also known as neobanks, are redefining the future of banking around the world. Though off to a slow start in the US due to high regulatory barriers, recent developments and the loosening of regulations suggest that US neobanks are set to take off.

Future of digital-only banks

Sophisticated mobile banking tools are a top factor fueling US neobanks' stratospheric rise-one that's taken on more importance amid COVID-19. Incumbent financial institutions, neobanks, and tech companies alike can benefit from understanding exactly how leading neobanks are raising the bar for customer expectations and trust to successfully scale their businesses.

Banking technology trends

The future of banking technology is driven by consumers, especially Gen Zers, who see technology as something that enhances their lives. A common trend in banking technology is using an application programming interface (API) to make proprietary data available to anyone who has the consumer's permission to access it.

Banks are using AI to smooth customer identification and authentication, while also mimicking live employees through chatbots and voice assistants. Apis could be used to enable a bank's mobile app to pull down customer account information. Fintechs have also used API technology to enable their businesses to work, and their success is encouraging competitors to develop their own apis. Additionally, a 2020 Insider Intelligence survey of banking executives found that 66% believe new technologies like blockchain, artificial intelligence (AI), and the Internet of Things (iot) will have the greatest impact on banking by 2025. According to Insider Intelligence, banks are exploring blockchain technology in hopes of streamlining processes and cutting costs.

The banking sector is at a turning point. Key measures for banks are at a historical low point. The sector's price-to-book value has fallen to less than one-third the value of other industries. That gap is less the result of current profitability and more about uncertain profit growth in the future. While banks have pushed for great improvements recently, margins are shrinking—down more than 25 percent in the past 15 years and expected to fall to 30 percent, another 20 percent decrease, in the next decade.

In the next era, banks can realign to compete in new arenas, organized around distinct customer needs. These arenas will expand far beyond the current definition of financial services, and they will also be hotly contested by a wide range of tech giants, tech start-ups, and other nonbanks. But this daunting reorganization, or breakup, could also provide banks with a huge opportunity: higher margins, new revenue streams, and loftier valuations. Ambitious banks can break free from stagnant valuations, thrive, and grow if they are willing to embrace the platforms of the future and make a few strategic, informed big bets.

Banking is losing its traditional advantages

Until recently, big banks drove profits and growth by applying synergies, economies of scale, and access to huge pools of capital. This massive industry already manages an estimated $370 trillion in worldwide assets, and its growth is accelerating. We project that global assets will grow to between $500 trillion and $550 trillion in the next decade.

While traditional banks have been convenient one-stop shops for businesses and consumers, many haven't evolved their products in a way that matches the tech-driven pace of change in other industries. Products such as checking accounts, loans, and even corporate advisory can seem undifferentiated. And people increasingly feel frustrated by the financial fragmentation that banks have imposed on many consumer processes. For instance, buying a home once required navigating a confusing world of disconnected real-estate brokers, mortgage lenders, insurance companies, lawyers, renovation contractors, and so on. Our grandparents tolerated those frustrations, but they also used pay phones. There were no other options. Today, we are awash in new ways to reach and connect with consumers. Banks need to identify and engage these customers—as their newer competitors are doing.

While traditional banks have been convenient one-stop shops, many haven't evolved their products in a way that matches the tech-driven pace of change in other industries.

Because of cross-industrial "platformization," banks must now compete with any organization that has the capacity and desire to offer any kind of financial services. Global tech giants such as Google and Tencent have used their platforms to offer banking services seamlessly to their millions of customers. But new competition is booming exponentially around the world.

Competitive arenas and business models are emerging in banking

The era when all financial services were dominated by monolithic banking entities is over. What, then, will arise to take its place? We believe that the future of banking will be contested by banks and nonbanks in five cross-industry competitive arenas: everyday banking, investment advisory, complex financing, mass wholesale intermediation, and banking as a service (baas).

The future of banking will be contested in five cross-industry competitive arenas. In the next decade, revenues for all these arenas could grow by as much as three to 30 times.

While these arenas encompass the products and services provided by banks today, they will be redefined and reinvented by different customer needs. This new competitive landscape has transformative potential. In the next decade, revenues for all these arenas could grow dramatically, by as much as three to 30 times.

In each of the five arenas, we see the potential for at least two platform business models. These ten platforms aren't theoretical models. They are trends that we already see in progress among organizations that are winning better valuations in the capital markets.

Everyday banking

Everyday banking encompasses day-to-day financial services, such as checking and savings accounts, credit cards, personal loans, payment processing, and lines of credit on the traditional-banking side, for individuals and for small and medium-size enterprises (smes). The relationship between banking and technology has become tighter throughout time, and the evolution has been huge since the '90s. Last year's pandemic sped up the adoption of new technologies – the COVID-19 crisis forced banks and their customers to use digital tools amid closures of branches, offices and call centers.

Banking-as-a-service (baas)

The pressure on traditional banks is coming from Big Tech and neobanks – who came up with seamless and user-friendly customer digital experience. One trend in retail banking derives from this challenge, particularly from changing consumer expectations, The industry is facing a surge in new banking technologies – such as Banking-as-a-Service (baas) – that are reshaping the entire retail banking business. Baas is often viewed as an API (application programming interface) strategy that is part of a larger concept: open banking, a collaborative model in which banking data is shared with third parties to deliver enhanced capabilities and services in the marketplace. KPMG, the consulting firm, urges organizations to design partner ecosystems using open platforms and apis "to enable flexible, dynamic engagement with external partners".

Blockchain

Blockchain, one of the most important technological breakthroughs of the decade, received many definitions since its early days. In short, as Euromoney.com puts it, blockchain is "a system of recording information in a way that makes it difficult or impossible to change, hack, or cheat the system". It is a technology which provides a ledger that nobody administers and is essential for specific financial services, like (real-time) payments or securitization.

DLT (Distributed Ledger Technology) is a related technology that some organizations use to establish better governance and standards around data sharing and collaboration.

AI

AI (Artificial Intelligence) was the 2019 buzzword in financial services. The adoption of AI in banking is transforming the industry to its very roots. AI enables instant and more personalized experiences to customers, and also enhances conversations with robo-assistants and chatbots that are available for customers 24/7. These are powered by a subset of machine learning technology called natural language processing (NLP).

Conclusion

Fintech, the application of digital technology to financial services, is reshaping the future of finance– a process that the COVID-19 pandemic has accelerated. The ongoing digitization of financial services and money creates opportunities to build more inclusive and efficient financial services and promote economic development. Fintech is transforming the financial sector landscape rapidly and is blurring the boundaries of both financial firms and the financial sector. This presents a paradigm shift that has various policy implications, including:

- Foster beneficial innovation and competition, while managing the risks.
- Broaden monitoring horizons and re-assess regulatory perimeters as embedding of financial services blurs the boundaries of the financial sector.
- Be mindful of evolving policy tradeoffs as fintech adoption deepens.
- Review regulatory, supervisory, and oversight frameworks to ensure they remain fit for purpose and enable the authorities to foster a safe, efficient, and inclusive financial system.
- Anticipate market structure tendencies and proactively shape them to foster competition and contestability in the financial sector.
- Modernize and open up financial infrastructures to enable competition and contestability.
- Ensure public money remains fit for the digital world amid rapid advances in private money solutions.
- Pursue strong cross-border coordination and sharing of information and best practices, given the supra-national nature of fintech.

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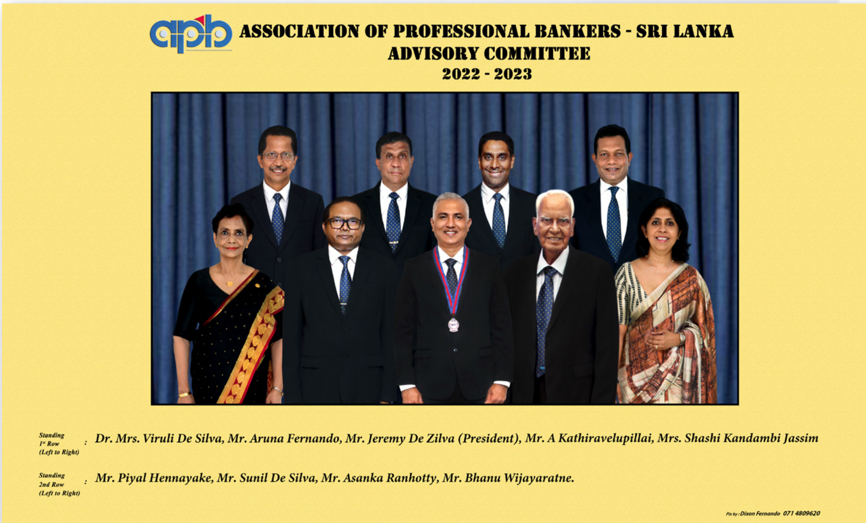

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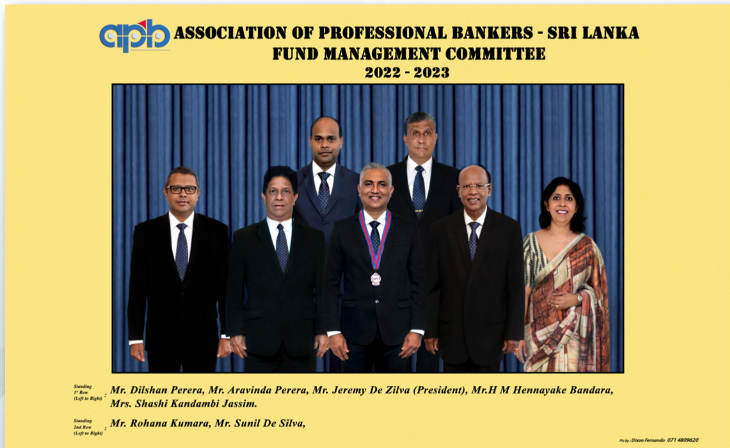

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