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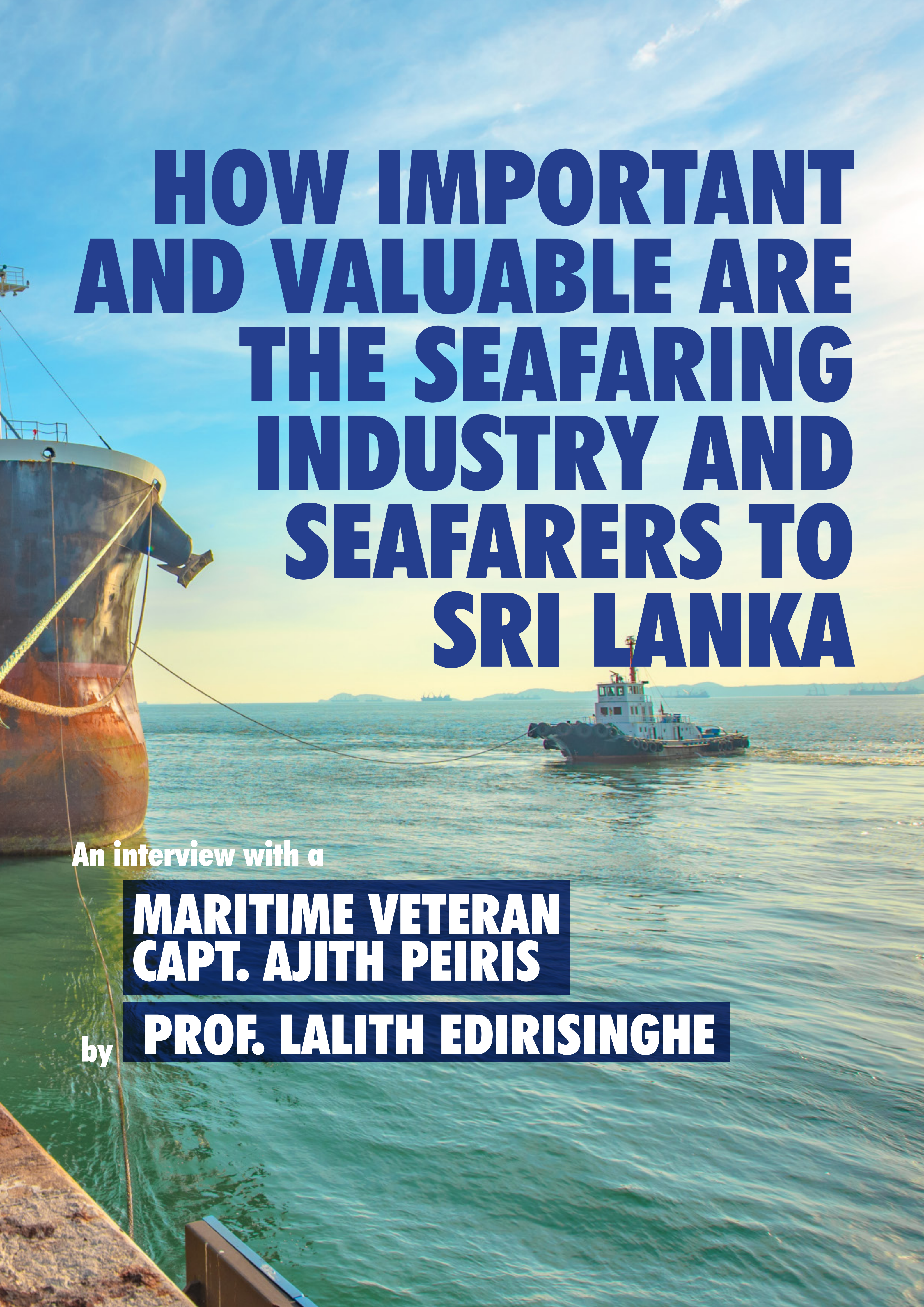
HOW IMPORTANT AND VALUABLE ARE THE SEAFARING INDUSTRY AND SEAFARERS TO SRI LANKA

An interview with a

MARITIME VETERAN CAPT. AJITH PEIRIS

by **PROF. LALITH EDIRISINGHE**



What is Seafaring and Crew Management?

A person who is employed on a ship or a craft engaged in sea transportation is called a seafarer. Usually, a ship owner assigns a ship manager to manage the ship. It has two major functions namely, ship management and commercial management. Ship management will further divide into technical management and crew management. Technical management includes machinery, surveys and many other technical aspects and crew management involved in managing the crew as the name denotes. The commercial management takes care of the ship deployment in the trade which can be on a chartering basis or ship owners own trade business.

A ship needs a team of highly skilled professional merchant seafarers to carry out the work on board. We call them ship's crew. They usually include a Master or Ship Captain, Chief Officer, Second Officer, Third Officer, Bosun, AB and OS seaman, cadets, and Cook and Catering staff to carry out Navigating, Cargo, Catering and administrative duties, while Chief Engineer, Second Engineer Third Engineer, Electro Technical Officer, ER Bosun, Motorman, Oiler. Welder and Fitter are responsible for the engine room and other machinery on the ship . Each of the roles carried out by the crew are unique and are integral to the successful operation of a ship. Attracting, developing and retaining the best crew for the ship owner or charterer are the basic duties of a crew management company. These management centers are generally supported by global manning offices to recruit skilled seafarers. Crew management companies (CMC) and their manning agencies are responsible for the manning of vessels under a crew management contract. While the terms of such contracts may differ from one to another it usually entails sourcing, selection, recruitment, deployment, scheduling, training, and day to day management of seafarers engaged on vessels under them. In addition, some CMC involves payroll services, travel arrangements, insurance, assistance with health, banking & financial services, career guidance, communication duties etc.

What is the importance of crew management for development of shipping trade?

Ships must be properly maintained and safely navigated from port A to B. To deliver a good service to the consumers and the entire shipping trade, the ships must operate efficiently to maintain schedules and to achieve that status, ships should be manned and looked after by knowledgeable, skilled and competent persons. As far as technical aspects are concerned the crew is responsible to sail the ship safely, reduce accidents on board, reduce personal claims etc. From the deck side, proper cargo loading, securing, safety of crew and passengers etc. and from the engine side how you manage the machinery and look after them are key deliverables.

Why this topic is important in the context of Sri Lanka?

Recruiting seafarers and deploying them on foreign ships will lead to substantial amount of foreign exchange to the country. Being an island nation, with sea right around Sri Lanka has a historical maritime background. Sri Lanka's international maritime identity and its geographical positioning in the Indian Ocean has gifted us many positives. Today we are faced with a serious problem about foreign exchange earnings. Given the comparatively higher salaries on board the ships against the shore-based wages and availability of many potential youths in the country who can grab the opportunity, this topic is timely and meaningful. These seafarers can earn more money than jobs ashore with dignity and respect. The salaries earned by seafarers can be saved to the maximum as there are no expenses involved as the accommodation and food are provided and the seafarers are out at sea most of the time with very minimum time spent in port. Therefore, working on a ship is more beneficial to the employee and to his / her family and the country since majority of the earnings can be sent home to be used meaningfully. This money will strengthen their family financial situation. This positive outcome will trickle down to the village where the seafarer comes from and then to the economy of the country. So, they should share the experience and encourage others including friends from own school / village too to join this industry.

Can you explain the background of Crew Management business in Sri Lanka?

The job of SRC ends after sending a suitable person on the request of their principal. If the CMC appointed by the ship owner cannot find a suitable person for a ship then they have a flexibility to obtain support of SRC for that ship on a fee agreed between parties. This could be even from another country and with the consent of the ship owner .

Sometimes other than the Seafarer recruiting or the manning agents , the licensed shipping agents also arrange people to join ships on the request of their principals. There are some freelance companies outside the regular shipping agents who are not licensed also engage in recruiting business through their personal contacts. As per the regulations in Sri Lanka a seafarer must sign articles and follow administrative procedure through the Ministry of Ports and Shipping. The main purpose is that in case of some discrepancy occurs in the contract between the seafarer and the employer , the authorities can get involve solving the disputes. As per new regulations the Seafarer Recruitment and Placement Service (SRPS) Providers need to possess a manning license issued by the Merchant Shipping Secretariat as far as Sri Lanka is concerned.

What are the areas that needs urgent attention to improve this business?

Primarily the government must focus on supporting in finding, facilitating, and securing more employment for people to be employed as seafarers through relevant Ministry. Currently the crew management and seafarer recruiting companies are promoting this business at individual level with their business contacts. But if the government takes initiatives to work with the relevant governments of the ship owning countries and promote SL seafarer recruitment, better results can be secured. For example, government must promote this business with the diplomatic missions in countries like Japan, Germany, South Korea, Greece , China, and Norway who are top ship owning countries in the world. It should be a consistent and well-planned approach together with the private sector involved in the seafarer manning industry rather than an ad hoc approaches as it happened in the past.

In addition to the individual ship manning companies the Sri Lanka government must show their commitment towards promoting this industry. It needs regular discussions with industry stake holders to gain ideas , formulate plans and resolve existing problems / challenges / bottlenecks preventing expansion of the seafaring industry. Since the government has limitations and the present environment does not attract many investors easily, projects of this nature need to be encouraged and supported without a delay .

Cruise liner is like a floating hotel and this sector will open many nontraditional seafaring jobs such as entertainment officers, barbers, bartenders, musicians etc. in addition to jobs in housekeeping, cooks, stewards etc.

Is this sector lacking policy and focus?

The policy and focus of the country should be to pluck the lower hanging fruits first. Seafaring is a lower hanging fruit, and we inherit many unseen opportunities by authorities. Identifying and making use of them is very serious in the current shortage of foreign exchange income. If the authorities have the right focus they need to identify the urgent need of the support at international level. It is necessary to launch a promotion of SL seafarers among ship owning nations through the high commissioners and ambassador of those countries based here in SL. We also must focus on manning on cruise liners as they have the crew numbers than cargo ships on board. Apart from normal maritime employees on these ships she has many employees in the hospitality industry. Sri Lanka is traditionally good in this sector as we are an attractive tourist destination. We also have the infrastructure to train and give experience to more people easily. However, there should be initiatives at government level to make these opportunities a reality. The authorities should believe and be open minded about this approach. Cruise liner is like a floating hotel and this sector will open many nontraditional seafaring jobs such as entertainment officers, barbers, bartenders, musicians etc. in addition to jobs in housekeeping, cooks, stewards etc.

Obtaining Continuous Discharge Certificate (CDC) should be made more flexible. It is suggested to issue a CDC to anyone who wish and have plans to join a ship in whatever the category after undergoing the mandatory short courses . Then only an endorsement is required with a rank/position if and when he is selected after confirming his qualifications and training by the employer. This way, the process of selecting and joining a ship is made easier and faster and competitive on par with other countries.

What are your recommendations to bridge the current gap?

First, the authorities should respond to market realities with an open mind supporting/ facilitating employment for SL youth on foreign ships. The prime objective and approach should be to encourage this lucrative business. If the existing regulations act as barriers leading to loss of employment to Sri Lankans, those should be amended to make our products marketable and competitive.

What kind of financial, political, and social support you think need to improve seafaring in Sri Lanka?

On the financial side the government must invest on promoting seafaring Island wide in Sri Lanka and worldwide among the ship owning countries. I am sure that the private sector manning companies will continue to invest on their part in these exercises. Politically, there is a lot to be done. The right focus and sustainable policy framework to be introduced in the first place. Mainly they should work in an open mind and provide authorities the right political leadership to enhance employment opportunities for seafarers and to enhance the quality of SL seafarers by wholistic training. Socially, the awareness at different level is the key. The fact remains that only a fewer people in SL population has the true awareness about the seafaring industry. Due to that most parents have a fear of sending their children to sea due to certain myopic beliefs. The knowledge about maritime industry should be given even to children at school level. Education sector should take the leadership in that. To introduce a system to reap maximum benefits, "shipping" could be introduced as a subject at early secondary level in schools. We have seen remarkable results in the logistics industry after we introduced Logistics in the school syllabi. So those who wish to become higher ranking officers on ships can select the appropriate subjects for them to qualify for the relevant training program.

What is your final message for the betterment of shipping industry?

About shipping in Sri Lanka (SL), the maximum focus and recognition are given to Shipping Agency business relating to Cargo operations. The manning/recruiting agency business was not given the due attention and recognition by the authorities as well as the shipping industry. The ship owning business which could have supported the seafaring industry, also never taken seriously and not promoted. Though we are an Island nation and Colombo is the Transshipment Hub in South Asia, we have no ships in the international trade other than 2 ships owned by Ceylon Shipping Corporation and a few bunker barges. Therefore, the employment of seafarers need to depend on foreign ship owners.

In the past CSC, Mercantile Shipping, Ceyline - Aitken Spence, and Hayleys owned ships and provided the much-needed employment opportunities to seafarers to obtain sea time experience which is much needed requirement to join foreign ships. Since the number of local ships have come down the growth of the Sri Lanka crew pool has slowed down. We must depend on foreign ship owners to provide berths for our trainees to gain the sea experience to be in demand for placement on ships as crew. Therefore, promoting ship owning among Sri Lankan business enterprises is vital. We also should encourage our shipping agents to promote SL seafarers on their principals' ships especially on the ships calling ports in SL. It is reported that over 300 ships call ports in SL per months and 300 plus ships pass by our southern point Dondra head per day. These are potential customers for our seafarer recruiting business.

Taking into consideration the above-mentioned facts / points, it was proposed to have a public private project to increase the present number of active seafarers from 16000 to 50000 in a five-year period. This is done through a promotion campaign locally throughout the island for awareness of the seafaring industry and globally among ship owning countries to show case our seafarers and their abilities and available training facilities in SL.

At present the foreign exchange earning to SL by way of seafarer wages is estimated to be USD 350 million per annum and with the other connected foreign income by way of air travel/ hotel accommodation, medical charges and agency fees, this figure increases to USD 500 million per annum. The above project to increase the active seafarers to 50000 will increase the foreign earnings to over USD 1.5 billion per annum. If the proposed project gets the required support from the Government and we produce seafarers to the international market from our villages, it will prevent our women who are forced to seek unskilled labor jobs mainly in the Middle East countries from going abroad. The social problems we faced today due to the woman in the house doing a job abroad leaving the children to be raised without the care of the mother, too could be avoided as the man in the house will have a reasonable job with a good earning capacity. A minimum of Rs. 350.000/- per month will be the earning capacity and with the sea experience, qualifications and promotions, the above figure can reach to much higher levels. The policy of the government and its focus must be to lift the status of SL from a country providing unskilled labor to a country providing dignified skilled labor and professionals to the international market. The above shows how important seafarer industry and the seafarers to our country, 'Sri Lanka' and would like to urge the Government to promote this sector on a priority basis with same focus and seriousness they place on tourism, tea and garment industries.

About CAPT. AJITH PEIRIS

A Master Mariner who began his career on an Indian State training ship 'Rajendra' in 1974 on a scholarship received from Ceylon Shipping Corporation. After completion of training in 1976, he joined the Ceylon Shipping Corporation fleet and sailed in all ranks ranging from Cadet to Ship Captain before joining a German Shipping Company. He qualified as a Master Mariner and was appointed Captain of a foreign going (Class I) ship at the age of 28 years. He served as a member of the Committee appointed by His Excellency the President on Maritime Affairs in 2009/2019. He also served as a member of various key positions including, Advisory Board appointed by the Minister of Ports & Shipping; Select Committee on Maritime Affairs of Ceylon Chamber of Commerce; and Advisory Committee of CASA. He is the founder Chairman, Association of Seafarers Recruiting Agents (ASRA). **Capt. Ajith Peiris is a past student at Royal College and currently the Executive Chairman of Ceyline Group of Companies, and Chairman/President of CINEC Campus.**

About PROFESSOR (DR.) LALITH EDIRISINGHE

Professor Edirisinghe commenced his career in 1981 as a Cadet Officer in Merchant Navy. He counts 41 years work experience in the corporate sector including Ceylon shipping Corporation and Board of Investment of Sri Lanka. He is a Consultant to the United Nations Secretariate, and a member of Advisory group of the European Union (EU). He holds a PhD, in Transportation planning and Logistics Management. He is a Chartered Logistician and Chartered Marketer and an office bearer of the Sri Lanka Society of Transport and Logistics, University of Moratuwa. CINEC and Professor Lalith Edirisinghe were instrumental in establishing Logistics as a part of school curriculum in Sri Lanka. He is the author of first logistics textbook and shipping textbook written in Sinhala introducing many theoretical models in shipping and developed new theories and concepts in transport. He was the project Chairman of the first ever National Logistics Awards 2018 conducted by Chartered Institute of Logistics and Transport Sri Lanka and the Chairman of the Panel of Judges in the National Logistics Awards 2021 organized by the Sri Lanka Freight Forwarders Association (SLFFA). **Prof. Edisrisinghe.is a past student and a Prefect Teacher of Ananda College, Colombo and at present, he is the Dean of Faculty of Management and Social Sciences and the Head of Higher Education Society Linkage Cell of CINEC Campus.**

Global Feeder Shipping

CEYLINE GROUP

FEEDER CONNECTIVITY

COLOMBO COCHIN GULF Service (CCG-W)			
VESSEL	COLOMBO SAGT	COCHIN	JEBEL ALI
CCG WB	SAGT - TUESDAY	THURSDAY	TUESDAY

COLOMBO COCHIN GULF Service (CCG-E)					
VESSEL	COLOMBO	CHENNAI FRI	VIZAG SUN	KRISHNA TEU	KATUPALLI WED
CCG EB	SAGT- SATURDAY	MONDAY	WEDNESDAY	FRIDAY	SATURDAY

INDIA WEST COAST Service (IWCS)					
VESSEL	COLOMBO SAT	Mundra THU	Goa SUN	Mangalore TEU	Cochin THU
IWCS	SAGT- SATURDAY	THURSDAY	SUNDAY	TUESDAY	THURSDAY

INDIA WEST COAST Service (IWCS)		
VESSEL	COLOMBO	TUTICORIN
	JCT	DBGT
TCT	SAGT	DBGT

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Series Editor


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29
LKR Billion
Cumulative operational profit of CPC (2010 to 2020)

335
LKR Billion
Cost of finance and exchange rate loss (2010 to 2020)

335
LKR Billion
Total accumulated losses estimated (December 2020)

Ceylon Petroleum Corporation: What drives the losses?

Ceylon Petroleum Corporation (CPC) is the state-owned enterprise in Sri Lanka with the largest accumulated losses – estimated at LKR 335 billion as of 2020. The analysis finds that the CPC sells fuel at prices higher than the cost of purchasing, processing and taxes; and that the accumulated losses can be entirely attributed to poor treasury management (interest costs and exchange rate losses).

The Ceylon Petroleum Corporation (CPC) is a fully state-owned enterprise (SOE) that engages in the selling and distribution of fuel in Sri Lanka. The CPC controls 86% of market shares in the retail petroleum sector. At the end of 2020, the CPC's debts amounted to LKR 529 billion – among the highest levels of debt for an SOE in Sri Lanka. Meanwhile, the cumulative net loss of the corporation is estimated to be LKR 335 billion by 2020 (the latest audited figure is LKR 326 billion in 2018, and a further loss of LKR 9 billion has been reported since).

By contrast, Lanka IOC – which also sells and distributes fuel to the retail market in Sri Lanka – made profits every year in the last 10 years, except for 2018. Lanka IOC also had positive retained earnings of LKR 11.8 billion as at the end of March 2020. This gives rise to a puzzle: the CPC has large accumulated losses, but its competitor that charges similar fuel prices has accumulated profits.

This *Insight* shows that the CPC has been operationally profitable in the past. However, the recorded accumulated losses can be entirely attributed to poor

Over the last 10 years, the CPC recorded a gross profit of LKR 281 billion. Therefore, the CPC losses cannot be attributed to a fuel subsidy

treasury and financial management, which is reflected in the interest costs, and exchange rate related losses through carrying large local currency liabilities and financing them through foreign currency debt.

CPC is operationally profitable

Data from the Ministry of Finance show that the CPC made gross profits every year since 2013. That is, the revenue exceeded the cost of sales, including sales related taxes paid to the government (see Exhibit 1). Over the last 10 years, the CPC recorded a gross profit of LKR 281 billion. Therefore, the CPC losses cannot be attributed to the company's cost of sales exceeding revenue.

When all the other operational costs relating to sales and distribution, administration, and depreciation are added, the CPC still made positive profits in most years, and generated

Exhibit 1: Ceylon Petroleum Corporation financials

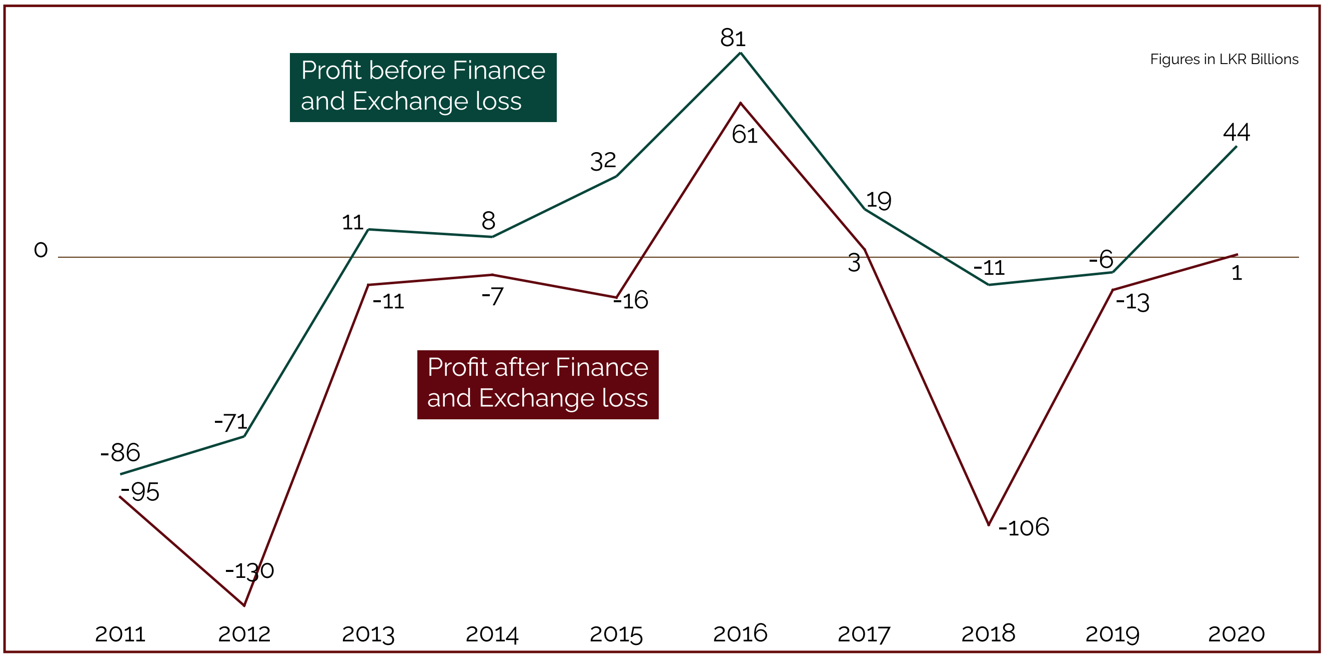
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
(a) Revenue	357	521	494	533	386	435	458	606	661	531	4,982
(b) Cost of Sales (inclusive of taxes)	427	574	468	501	337	335	419	596	643	464	4,764
(c) Gross Profit (a-b)	-70	-53	26	32	49	100	39	10	18	67	218
(d) Sales and distribution, Administration and Depreciation cost	16	18	15	16	17	19	20	21	24	23	189
(e) Operational Profit (before finance/exchange cost) (c-d)	-86	-71	11	16	32	81	19	-11	-6	44	29
(f) Finance Cost	9	26	19	14	15	11	11	12	15	21	153
(g) Exchange Rate loss	1	33	3	1	33	9	5	83	-8	22	182
(h) Net profit/Loss (after finance/ exchange cost) (e-f-g)	-95	-130	-11	1	-16	61	3	-106	-13	1	-305

Source: Ministry of Finance Annual Reports (2011-2020), Ceylon Petroleum Corporation Annual Reports (2011-2014) – for exchange rate loss

Note 1: Cost of sales calculations include the sales taxes paid to government by way of excise duty and NBT.

Note 2: Profit/loss was calculated after deducting from revenue the expenses including taxes provided in the MoF Annual Report. There were several small discrepancies in reported numbers that could not be reconciled. For some years, the direct Profit/loss published in the MoF Annual Report differs from the above calculation, and both of these also differ from the figures in the CPC Annual report.

Exhibit 2: CPC's main losses driven by exchange loss and finance cost



Source: Ministry of Finance Annual Reports (2010 - 2020), Exchange variation data prior to 2017 from CPC annual reports (2010 - 2017)

Exhibit 3: Exchange rate impact on CPC's profit/loss

	Value as at December 2018 (USD Million)	Negative Impact on CPC profit of 1% LKR depreciation (LKR Million)
Loans and Borrowings (USD)	USD 1,597 million	LKR 2,947 million
Trade and other payables (USD)	USD 1,527 million	LKR 2,818 million
Total	USD 3,124 million	LKR 5,765 million

Source: CPC Annual Report 2018, p. 145.

The Ministry of Finance figures show that the CPC made gross profits every year since 2013—that is, the revenue exceeded the cost of sales, including sales related taxes

an accumulated operational profit of LKR 29 billion over the last 10 years (2011–2020). Therefore, operationally (including all direct purchasing costs, overheads, operational costs, taxes and asset depreciation), the CPC still made a positive profit over the last 10 years.

CPC's net profit mainly hindered by exchange rate loss and interest cost.

The CPC registers net losses mainly when finance costs and exchange rate losses are included in the profit calculation (Exhibit 2). Costs arising from finance charges and exchange rate losses add up to LKR 335 billion over the last 10 years. The estimated accumulated loss up to December 2020 is, coincidentally, the same amount.

Details on exchange rate loss

The CPC's exchange rate losses arise out of a currency mismatch in its balance sheet. The corporation has trade receivables predominantly denominated in Sri Lankan rupees, while the CPC's current liabilities are mainly denominated in foreign currency. As at 2018, 70% of the LKR 86 billion in trade receivables were denominated in Sri Lankan rupees, and 30% were in foreign currency. Trade receivables as at December 2018 primarily arise from (i) Sri Lankan Airlines—LKR 25.6 billion, (ii) Ceylon Electricity Board—LKR 47.6 billion, (iii) Independent Power Producers (IPPs)—LKR 6.7 billion, and (iv) the armed forces—LKR 0.82 billion.

At the same time, the CPC has foreign bills payable to the value of LKR 245 billion. It also has US dollar-denominated short term bank loans from the People's Bank and the Bank of Ceylon amounting to LKR 295 billion (backed by a treasury guarantee of USD 1,800 million). These foreign currency loans have been used to finance import bills payable to suppliers.

Given the currency mismatch between current assets and current liabilities, every time the Sri Lankan rupee depreciates against the US dollar, there is a significant adverse impact on CPC's financials, which are reflected in the income statement as a loss to the corporation. For example, when the rupee depreciates by 1% in a year, the profit to CPC reduces by LKR 5,765 million (calculated on the value of foreign liabilities at the end of 2018). This currency mismatch would make financial sense for CPC only if the the rate of depreciation, plus the rate of interest of the foreign currency debt/liabilities that it holds was less than the interest rate on rupee debt.

Conclusion

Reducing financial losses of SOE's are key to improving the overall fiscal position of the country. In some instances, SOE losses have been justified as necessary for providing goods and services at concessionary prices to the public. In the case of the CPC, it is evident that financial losses do not arise from concessionary pricing to consumers. This Insight shows that despite not providing any overall subsidy to the public, the CPC's weak treasury and financial management has resulted in it having one of the largest accumulated losses among Sri Lankan SOE's. ◆

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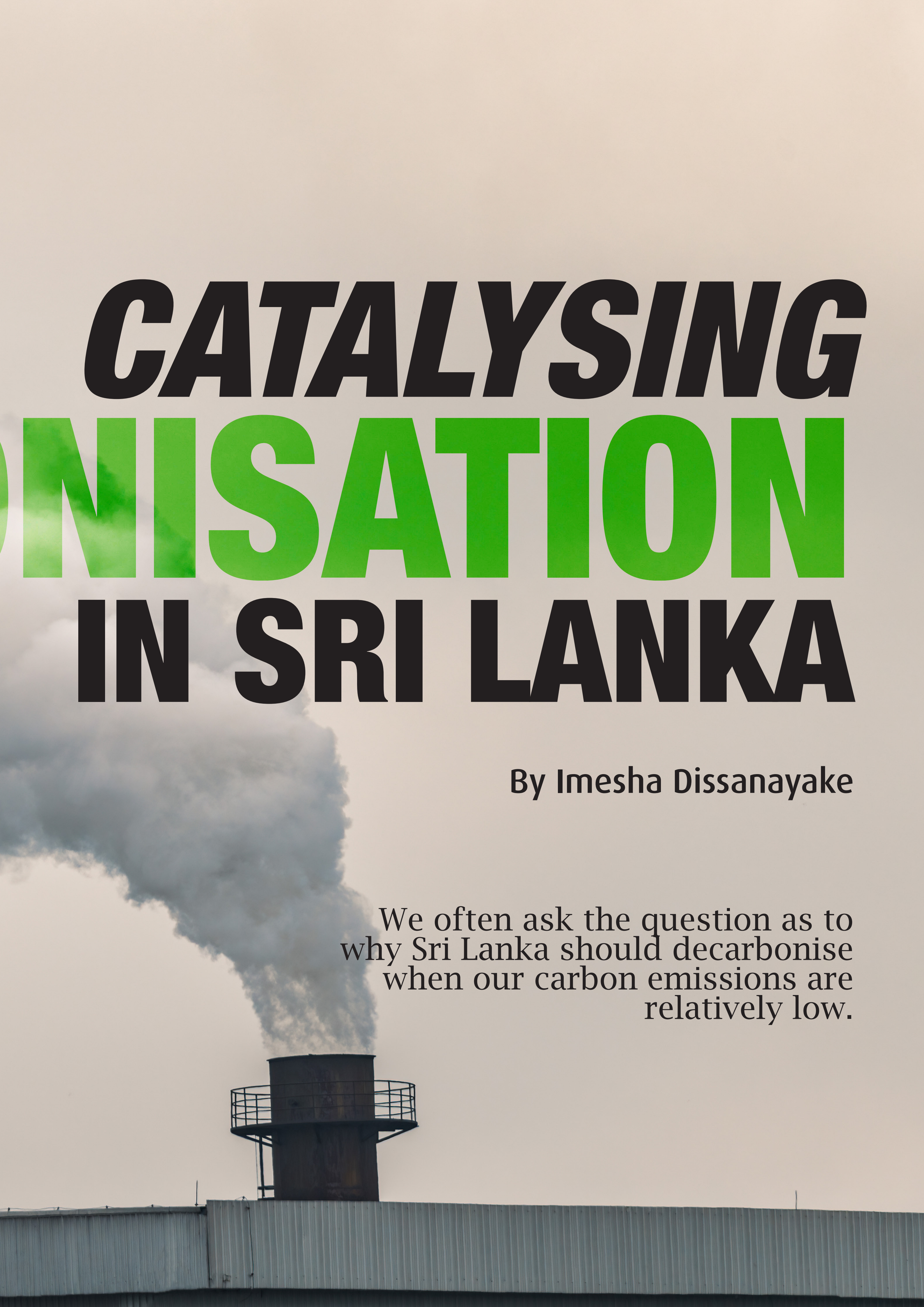
DECARBO



CATALYSING
NISATION
IN SRI LANKA

By Imesha Dissanayake

We often ask the question as to why Sri Lanka should decarbonise when our carbon emissions are relatively low.

The World Bank assessments show that approximately 19 million people in Sri Lanka are currently living in locations that could become moderate or severe hotspots by 2050 under a situation where no action is taken to limit emissions.

This is true as the country's share of global carbon emissions is only 0.06% and has been plateauing at the same rate for the last five years since 2015. However, as an island nation, Sri Lanka is very vulnerable to climate change impacts and hence joining hands with global decarbonisation initiatives is imperative for the country. The global climate risk index 2021, ranked Sri Lanka as the 23rd most affected country from extreme weather conditions during the period of 2000–2019.

Therefore, Sri Lanka is susceptible to temperature rise, rainfall variability, and sea-level rise. A rise in sea level will hamper sectors of the economy such as tourism and fisheries. A significant population of the country is also dependent on livelihoods connected to agriculture and will be adversely affected due to impacts of climate change. The World Bank estimates that the country's GDP could decline by 7.7% by 2050 in a worst-case scenario where no action is taken to combat climate change. This is estimated to result in a loss of USD 50 billion to the economy over the course of the period.

Sri Lanka also contains hidden hotspots that are often not discussed in public fora. Climate change poses an economic risk to these hotspots. The World Bank identifies hotspots as a location where changes in average temperature and precipitation will have a negative effect on living standards. The World Bank assessments show that approximately 19 million people in Sri Lanka are currently living in locations that could become moderate or severe hotspots by 2050 under a situation where no action is taken to limit emissions. This population is equivalent to about 90% of the country's population.

Sri Lanka has a global responsibility to achieve climate change commitments as well, since, the country signed and ratified the Paris Climate Agreement. This resulted in Nationally Determined Contributions (NDCs) being developed initially in 2016 and renewed every 5 years in accordance with the 21st Conference of the Parties (CoP) commitments. Currently, the updated NDCs in 2021 accounts for 4% and 10.5% of unconditional and conditional actions, respectively, for reducing greenhouse gas (GHG) emissions against the Business-As-Usual (BAU) scenario during the period of 2021-2030.

It must be noted that in spite of abiding by these international climate commitments, it would still put the world on course for 2.7°C of warming this century while, net-zero pledges could reduce warming by 0.5°C. The UN Environment Programme (UNEP) reports that the new and updated global climate commitments only accounts for an additional 7.5% reduction of emissions while a 30% reduction is needed for 2°C and 55% is needed to meet the 1.5°C Paris goal.

Sri Lanka is also reliant on its export earnings and Foreign Direct Investments (FDI), and there are key business risks associated with lackluster attempts at decarbonisation. The rapid pace at which countries are moving towards becoming net-zero carbon economies is also determining the global demand for products and services. This has led to consumers and investors seeking products and services that underpin low carbon emissions. Hence, it will be crucial for the country to latch onto the shift in demand and reap benefits of having products and services that produces less carbon emissions.

Therefore, quick decisive and implementable actions are needed to decarbonise the country, since decarbonisation of an economy or a business takes a significant amount of time. As observed in other countries, climate change impacts disproportionately to the poorest and marginalised communities. This is more so applicable in Sri Lanka, as a majority of the population are living in rural areas and engaged in small-scale agricultural activities or fisheries activities that are increasingly threatened by extreme weather events and irregular monsoon rainfall patterns. This is in return can exacerbate poverty and inequality within regions of the country.

SECTOR OVERVIEW

Observing the carbon emissions by sectors in 2018, the transportation sector is the highest contributor of carbon emissions followed by electricity and heat sector. While carbon dioxide is the most dominant GHG produced by burning fossil fuels and industrial production, there are others that are driving global climate change. This includes methane, nitrous oxide, and trace gases, which have contributed to a noteworthy amount of global warming. A brief overview of sectors with high emissions, which are of economic importance to the country is given in the section below.

Transportation Sector

The transportation sector is grappling with many issues such as congestion, pollution and a resultant substantial fuel bill. The private and public transportation accounts for nearly 60% of the fuel consumption in the country. Congestion is particularly seen in city limits such as Colombo with about 1.9 million passengers entering the City of Colombo daily.

One of the causal factors for these issues has been the growing population of private vehicles in the absence of good public sector transportation modes. About 85% of the vehicle population in Sri Lanka are privately owned vehicles, namely; cars, motor bicycles and trishaws. The growing disposable income, urbanization, availability of credit, and the need for last mile transport can be identified as the reasons for this trend.

Energy Sector

Historically growth in electricity demand of the country has seen a direct correlation with the growth in the country's Gross Domestic Product (GDP) and hence, plays a vital role in the economy. In this regard, the sector has seen high level interest from the top most officials in the country including HE president in achieving a 70% renewable energy target by 2030 as announced in the annual budget of 2020. However, the government is yet to gazette this target and make it part of the formal state policy.

The electricity generation for the last two years show that renewable energy accounts for approximately 35% of the total energy mix in 2019 and 2020. Coal and oil have contributed to more than 60% of total generation mix in the same period. The current power outages experienced by the country is a result of the energy sector's dependence on fossil fuel for generation and lack of reforms in the sector.

Manufacturing Sector

The value added by Sri Lanka's manufacturing sector as a percentage of GDP stood at 18% in 2021. Manufacturing sector exports such as Apparel is the largest contributor to the country's export earnings with a share of 43% in 2021. Therefore, with a change in demand by consumers and investors for products that generate low carbon emissions, it will be imperative for the country's manufacturing sector to adopt low carbon measures in order to attract investors for more local value addition and as well as to cater to a growing market.

The Apparel industry's key customers in export destinations are increasing the pressure to decarbonise supply chains. Examples of these include Science Based Targets initiative (SBTi), G7 Fashion Pact and EU Carbon Border Adjustment Mechanism (CBAM), which are likely to include apparel, metal and ceramics with time.

About 70% of the rural population is dependent on livelihoods attached to Agriculture and utilizes 43% of the total land area of the country.

Agricultural Sector

The agricultural sector plays a vital role in Lanka's economy with linkages across all sectors. It contributes to key exports of Sri Lanka such as Tea and Rubber that accounted for 11% and 8% of the export earnings in 2021. The agriculture sector, accounts for 7% of the GDP and employs nearly 30% of the country's labour force. About 70% of the rural population is dependent on livelihoods attached to Agriculture and utilizes 43% of the total land area of the country. Climate change impacts such as irregular rain patterns, and extreme shifts between droughts and rainfall, directly affects agricultural activities.

The agriculture sector in Sri Lanka as assessed by Climate Watch data is the highest contributor of both methane emissions and nitrous oxide emissions, albeit contributing to low emissions in carbon during 2018. Methane and nitrous oxide are mainly produced through agricultural activities such as rice production, and from the use of chemical and organic fertilisers.

Power wheeling will allow renewable energy developers to use existing transmission and distribution networks to supply renewable electricity to prospective buyers.

WAY FORWARD

1. INTRODUCING DIRECT POWER PURCHASE AGREEMENTS TOGETHER WITH POWER WHEELING

Globally countries are offering power purchase agreement models that yields financial as well as environmental benefits to organisations. This allows companies to work with a renewable energy developer and receive renewable energy directly from the developer. Power wheeling will allow renewable energy developers to use existing transmission and distribution networks to supply renewable electricity to prospective buyers. An appropriate fee for the grid can be charged for this purpose.

2. ROADMAP FOR CIRCULAR ECONOMY

The country lacks a road map for encouraging a circular economy in Sri Lanka. As a first step, identifying sectors that have linkages within other sectors can be explored, where output waste can be translated into input material of another sector. This is already taking place in the brewing industry and in the case of PET bottles. Coupling waste management and energy generation is another area for the circular economy that can also look beyond key urban areas.

3. STATE-OWNED ENTERPRISE (SOE)

REFORM

Reforming SOEs can not only result in productivity and efficiency gains but also facilitate innovations in the enterprises that will aid in carbon reduction mechanisms. It will also provide the entities with additional revenue to pursue the carbon neutral targets. Reforms can be carried out to entities such as Sri Lanka Transport Board and unbundling of the CEB. Partially listing a percentage of SOEs on the stock market would also help to increase public oversight and increase accountability for achieving carbon emission targets.

4. SOLARISATION

Solarisation can take many forms including; highway solarisation; solarisation of railway and bus stations; and conversion of existing industrial zones to renewable energy industrial zones. Sufficient storage capacities will be required for this process with technologies such as pump hydro and battery storage that will facilitate high renewable energy integration to meet real time electricity demand. A significant amount of investments too is required for this and hence can be opened up for investors with conducive policy to support it.

5. ELECTRIC VEHICLE POLICY

Sri Lanka lacks a policy for Electric Vehicles (EVs) with a proper mechanism of disposing batteries of EVs. Therefore, a policy on EVs together with a proper mechanism for disposing batteries will be imperative in reducing the fuel dependency of the country, which thereby can reduce forex outflows. Feasibility of local value addition for batteries can also be explored as about 70% of the value of EV's are in the battery. Further, establishing more charging stations for EV and solarisation of EV charging stations will make EVs more sustainable.

6. PUBLIC TRANSPORT STRATEGY

A public transport strategy covering both bus and railway sectors is imperative for the country. This will enable the public transport systems to be safe, affordable and attractive to the public. This can encourage the shift from private vehicles to public transportation modes, which in return can reduce congestion and pollution in the country. The strategy can encompass sector reforms; digitization; standards and quality assurance processes; and rationalised pricing regimes

7. INTRODUCING PARKING FACILITIES

Introducing parking facilities at city entry points, especially in the Colombo city limits with shuttle bus services is another area that can aid in transferring passengers from private vehicles to public transportation, reducing congestion and pollution. The shuttle bus service can be operated with electric buses to support the initiatives of reducing fuel dependencies.

CONCLUSION

Climate change does not stop at borders, as with the on-going pandemic, and requires the same level of urgent and decisive measures to avert its detrimental impacts. The above-mentioned strategies can help the country to be placed on a path towards achieving carbon neutrality. This will result in improved growth and development, improved living standards, and help reduce poverty and inequality.

The economic crisis the country is currently experiencing, presents an opportunity for Sri Lanka to decarbonise. This can act as a catalyst to tap into green financing that can help in closing the gap between financing and infrastructure needs of the country while also improving the country's foreign reserves. Hence, this is an opportune time for Sri Lanka to reduce its dependency on fossil fuel and reduce its strain on the import bill. This can bring in new avenues of FDI to the country and improved performance of export earnings. This can also ensure that sustainable projects are in place to build resilience for future crises.

The full report can be accessed at: Catalysing Decarbonisation in Sri Lanka
The writer is a Senior Research Associate attached to the Economic Intelligence Unit of the Ceylon Chamber of Commerce. This article is part of the Strategic Insight Series, which focuses on key contemporary topics.

WORLDLINK SHIPPING CELEBRATES 25 YEARS

An interview with

Ms. Vera Wickramasinghe

Founder & Owner
Worldlink Shipping Colombo (Pvt) Ltd.

1. Being an entrepreneur at such a young age (26 years) what drove you into starting a business in shipping & Logistics and what were the challenges you faced in starting up the business and steering it through 25 years of steady growth & how did you overcome them?

It was an unplanned thing. I started my career at the end of 1992 when I was around 22 years as a clerk, in months became a shipping co-ordinator and did my chartered shipbrokers foundation diploma and got through the exams as the only female in 1995 which changed my career in recognition and in knowledge. During that period I worked for Jardine Colombo and was blessed to do vessel operations in the Port of Colombo. I learnt ABC of shipping from my then MD, Mr. Gihan Nanayakkara who was an excellent leader. I was then offered by leading ship agency companies in Sri Lanka of which I liked the position of Business Development Executive at Asha Agencies Ltd.

However within 06 months I was offered the position of General Manager at an upcoming Freight Forwarding company where I worked for one year plus. As I didn't see eye to eye with the management on certain aspects, I decided I should part my way. The challenge was at the age of 26 years, already served as a GM in the Freight Forwarding industry, what would be my next step.

This paved my way to start my own logistics company.

I had few ethics from the very first day. To do a job perfectly. To be accurate in finance management. To develop a good team and to have continuous improvement in knowledge.

There were many challenges and difficulties in our journey. We didn't have any financial backing at the beginning. We didn't have any professionals from the industry. We had to develop everything from zero.

Our team, our partners worldwide, our customers and our suppliers have supported us tremendously to overcome all of them and to be where we are now.

2. What was it like as a woman and a mother trying to build up a business in a male dominated industry?

Being a woman in a male dominated industry is a blessing for me. When you analyze a situation there is nothing called 100%. So let me say in most situations it is a blessing. I have many friends in this trade. All of them have helped me in whatever possible ways from the beginning of our journey.

Our first container was loaded to Moscow and Russia/CIS was our first trade lane. Most of our customers and our trucking partners helped us and I felt we were supported more because they admired my efforts & determination being a woman trying to survive in a tough market like Russia.

Globally, I am recognized and supported by almost all our partners.

I believe what matters more is your knowledge, your dedication and your discipline and not your gender.

Being a mother is a challenge when you are a working woman and it is even more challenging when you are running your own business.

MY BIGGEST ACHIEVEMENT IS BEING ABLE TO REPRESENT WORLD LEADING PRINCIPALS & PARTNERS.

Both roles require a lot of your time. One role is not less than the other.

With my children my rule is, tell them the truth, give explanations, make them understand and make them a part of your life. This has helped me so far in keeping up with both my roles.

My husband has always been very supportive to me to balance my Business & Family life.

My sister who is our Marketing Director has always been my backbone from the very beginning and we have always been each other's strength.

3. What do you consider as your strengths and weaknesses?

Being proactive, ability to analyze an overall picture and find a complete solution are among my strengths and believing in diversity.

As for weakness I am not good at things which do not make me excited and happy.

4. What would you consider as your biggest achievement & biggest failure during these 25 years?

My biggest achievement is being able to represent world leading Principals & Partners. And continuing to manage our company without any serious legal issues or penalties for the past 25 years.

Failure – there is no serious failure I can think of, but at times I have felt that we are slow in expansion. But then again the answer is, that is how we do it at Worldlink and it has always worked for us.

5. What do you consider non-negotiable in your business?

Accuracy & Quality

6. The Strengths you find in your team who is with you to take Worldlink forward ?

Their knowhow with their experience and they being a part of Worldlink culture.

7. What strategies you find most effective for having long standing relationships with your partners , customers and suppliers ?

Being proactive, Discuss facts, Analyze scientifically and be Part of the solution.

8. What career path would you have chosen if not for logistics?

If I had a beautiful voice, I would have been extremely happy to become a singer.

9. How do you define success as an entrepreneur?

Being respected among your business partners.

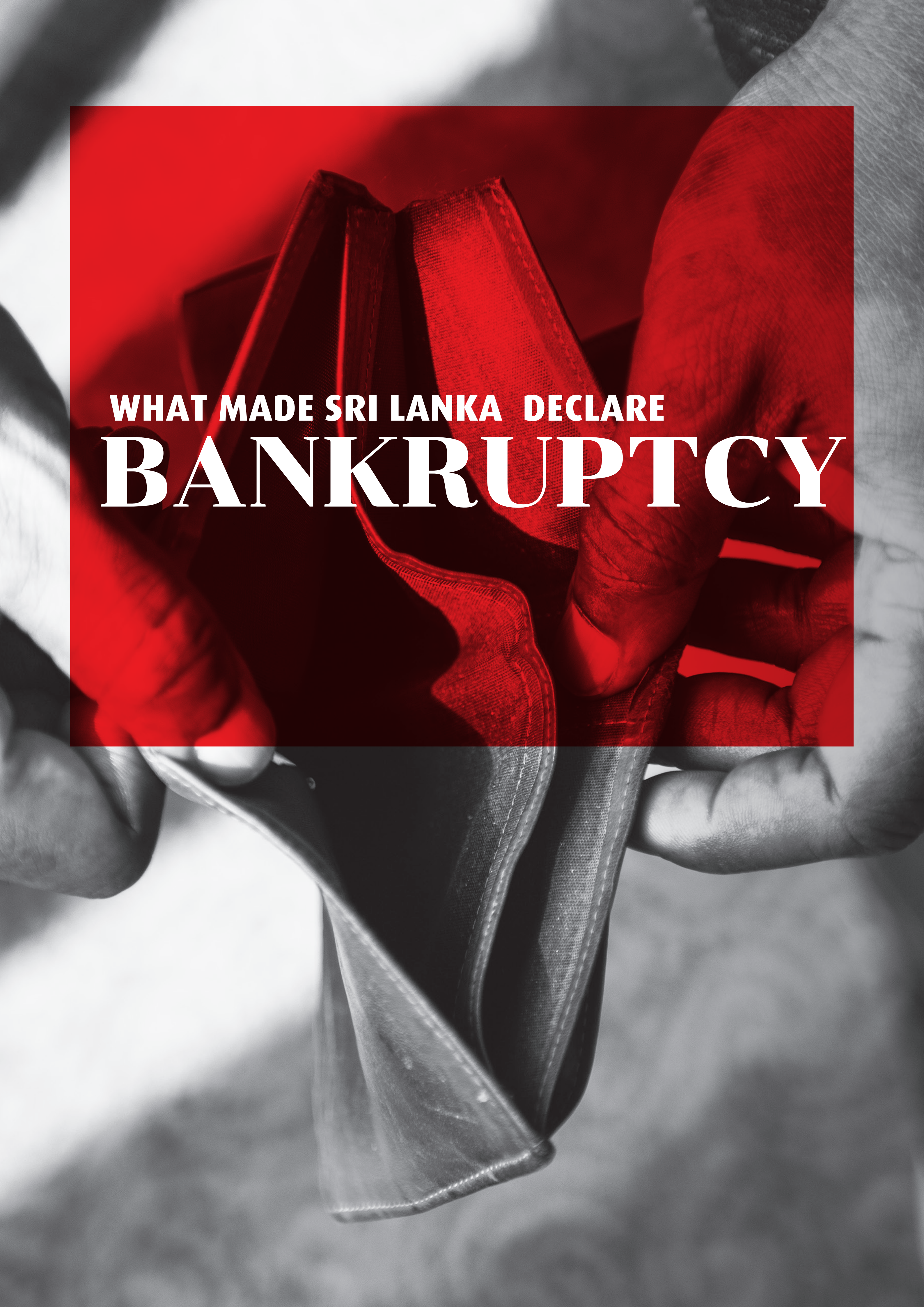
10. What advice would you give to an entrepreneur starting up a new business?

Be accurate in finance and invest in your passion.

11. Any plans for celebrating this milestone of 25 Years?

We have planned to give 12 Scholarships to selected candidates to follow the Chartered Shipbrokers foundation diploma which we feel is more appropriate in the current situation.

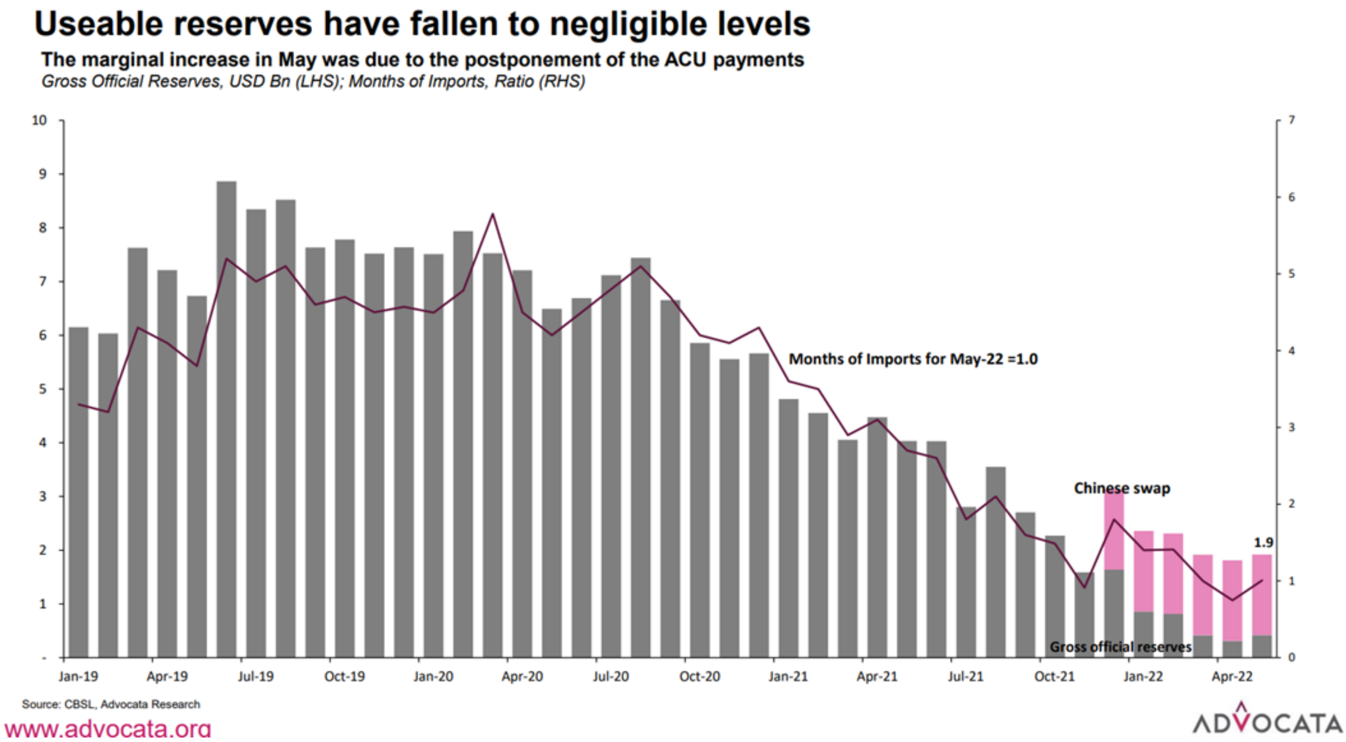
WHAT MADE SRI LANKA DECLARE BANKRUPTCY



A discussion with

Mr. Murtaza Jafferjee

Mr. Murtaza Jafferjee is an investment professional with over 25 years of industry expertise. He has previously been a director of the Colombo Stock Exchange, Nations Trust Bank and Serendib Hotels PLC. He was a past president of CFA Society of Sri Lanka, the local member society of the CFA Institute and also held the advocacy chair whose responsibilities include promoting good ethical practices. He has a Bachelor's Degree in Mechanical Engineer and Computer Science from the University of NSW, Australia and a Masters in Financial Economics from the University of Colombo. He is also a Chartered Financial Analyst (CFA)



On the 12th of April 2022, Sri Lanka for the first time in its history, suspended debt repayments for an interim period. How did this situation arise? What in your opinion went wrong? Should people be accountable?

The suspension of the debt repayments occurred as a rude surprise. However the situation arose on the day they suspended the debt service, when the usable reserves were only USD 5 million which is a minute amount of funds.

If we recall, when Covid hit around March 2020 our reserves were close to USD 7.5 billion and it came down progressively. Above all, we used the reserves to pay foreign creditors. Hence, by the time we defaulted in April the usable reserves were only USD 5 Million. In contrast, there are some citizens in Sri Lanka who have USD 5 million dollars in their personal bank accounts. It was under this precarious situation that the Government had to suspend the debt service.

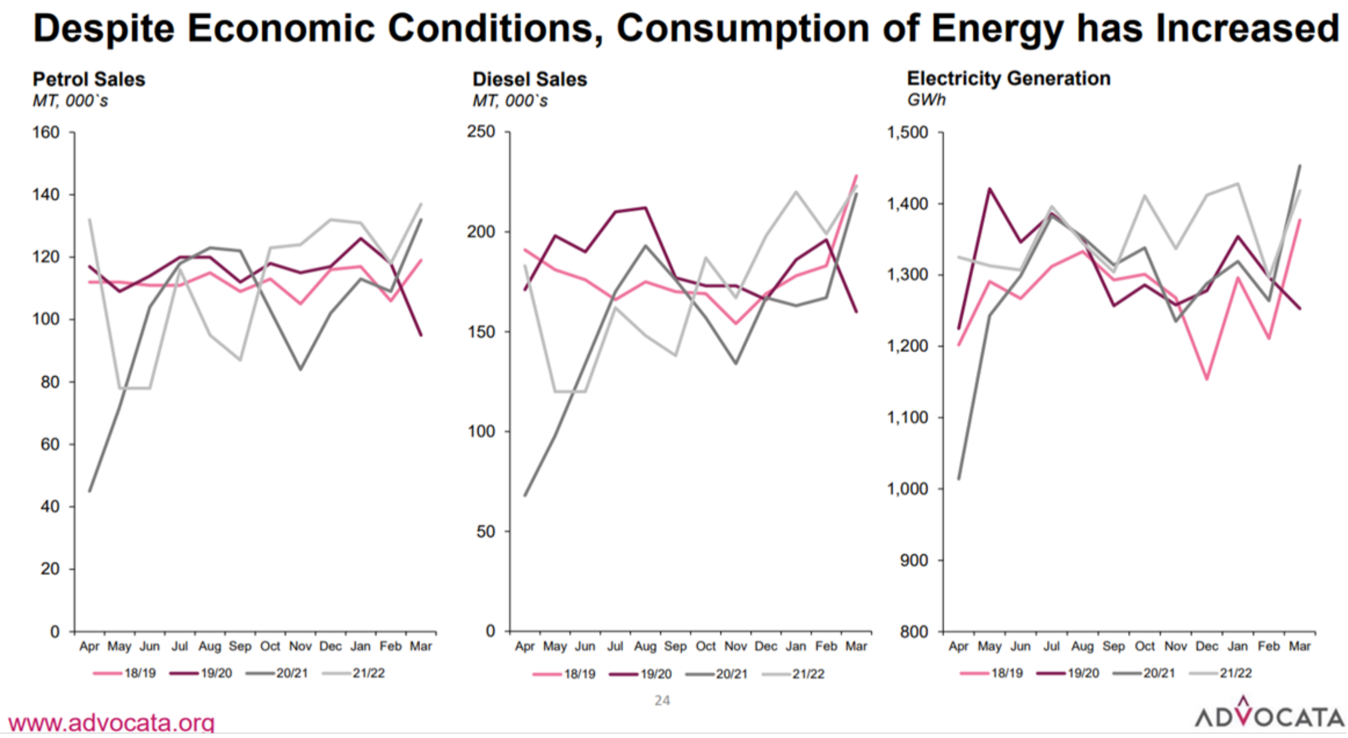
It was a dogmatic reaction of the Government to not accept that there was a serious problem, when sovereign ratings were cut. They should have been pragmatic and restructured the tax system two- three years ago

I believe that there was an element of gambling with the future of the country when there was an assumption that things would turn around and that Covid would end but it came in several waves continuously. They had also bet on tourism coming back but the prediction failed.

It is not the people who should be blamed but the authorities have significantly failed to look after the interest of the people of this country and they have failed miserably. There is a case of criminal prosecution called "The Doctrine of Public Trust" which allows civilians to prosecute the government for not acting in public interest.

Was there anything that GoSL and CBSL could have done to prevent a default or was in inevitable? IF it was indeed preventable, what could we have done differently?

No I don't think it was preventable. But there is a difference between having a hard landing and a soft landing. I believe we could have pre-empted a hard landing rather than a soft landing. Which is what we have had. We could have restructured our debt somewhere in the mid-2020. What we should have done is to make a preemptive announcement and done a preemptive negotiation that we needed our foreign debt to be restructured. By the time COVID hit, because we had cut down our taxes towards the end of 2019, it was very clear that we were not in a position to continue to service our foreign debt. We should have restructured the foreign debt. When our ratings were cut, we lost market access to further funds. Most of the foreign debt we had was never meant to be repaid. It was always meant to be re-financed. Which means you raise new money and pay old loans. However, as our ratings were cut our ability to refinance was lost and therefore it was rather imprudent to use our reserves which is our buffer. The reserves are like your savings account; it's always there for a rainy day. We used our reserves to pay foreign creditors foolishly thinking that we will come out of this crisis and we continued to be in denial for close to two years, until we were left with nothing in the bank.



Sri Lanka is currently facing a serious ForEx crisis, without the required funds for the importation of essentials such as fuel, gas and medicines. What are the immediate remedial actions needed to stabilize the economy and prevent a further deterioration of the situation?

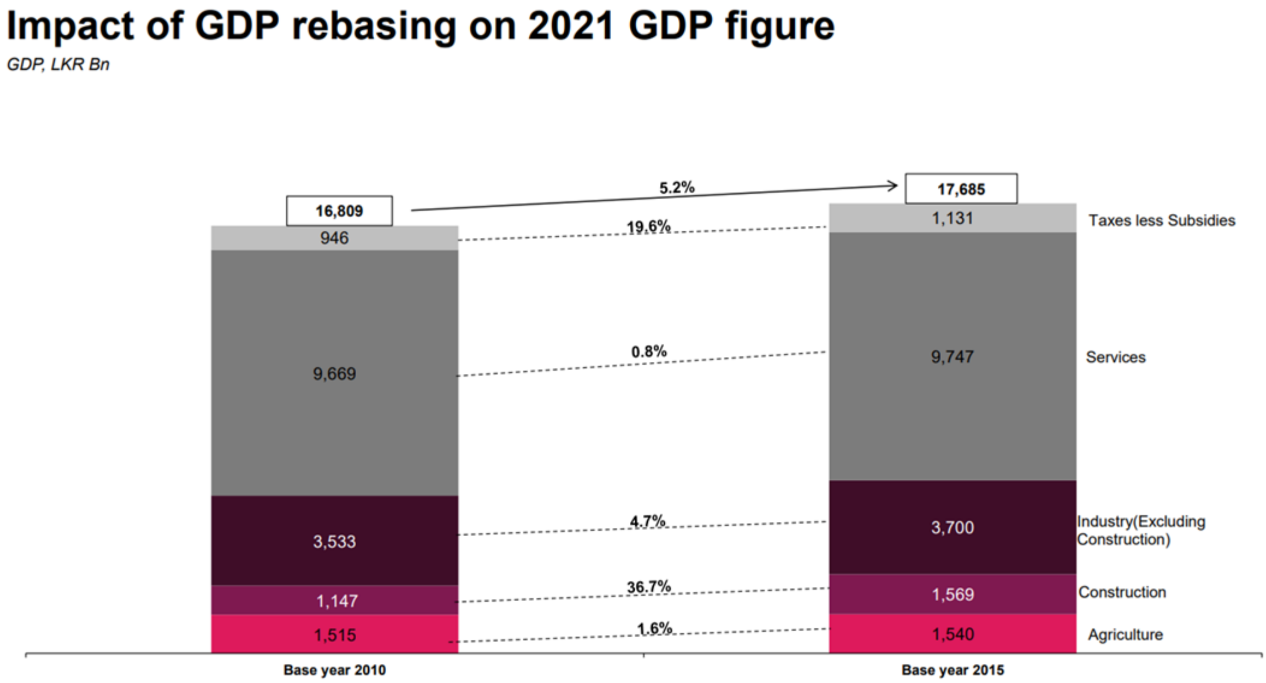
I believe our major problem here is that there is excess demand because of money printing and incorrect pricing.

The fundamental issue here is what economists call high aggregate demand. Excessive monetary and fiscal stimulation through tax cuts, artificially low interest rates led to high consumption which in turn led to this problem.

Despite Economic conditions, demand and consumption of energy increased off the charts. We can disregard the year 2021/2022 as Covid hit since the country was under lockdown. Evidently, 2019 January – March were very good days for tourism in the country. Petrol and Electricity sales of year 2021/2022 are at hugely elevated levels than of 2018/2019. It is the same with the Electricity consumption. In spite of power cuts and fuel sanctions, the demand is off the charts. I believe our major problem here is that there is excess demand because of money printing and incorrect pricing. For an example, fuel prices were kept artificially low for a long period of time then it was finally increased. It is important for us to reduce our consumption for us to come out of this excess amount of aggregate demand. Higher interest rates and increased taxes is important for this purpose. We also have a Balance of Payments problem. That is why there is a shortage of dollars and a shortage of everything.

There has to be a significant demand contraction. If you look at 2021, cement, steel, paint sales were off the chart. People were building like no tomorrow. Refrigerators, televisions and washing machines were bought by many due to low interest rates. What has happened now is everything has reversed. To answer your question in short, the exchange rates must be more market determined. Secondly the interest rates should continue to be kept at this high levels. Thirdly these utility prices which are highly politicalized should be regularly revised based on a transparent formula most importantly in this case, only the regulator must be involved, not politicians.

Beyond the power outages, shortages of essentials and rapidly rising cost of living,



do you see a further weakening of the state of the economy in the short term? How do you see the next twelve months panning out for the citizens of Sri Lanka?

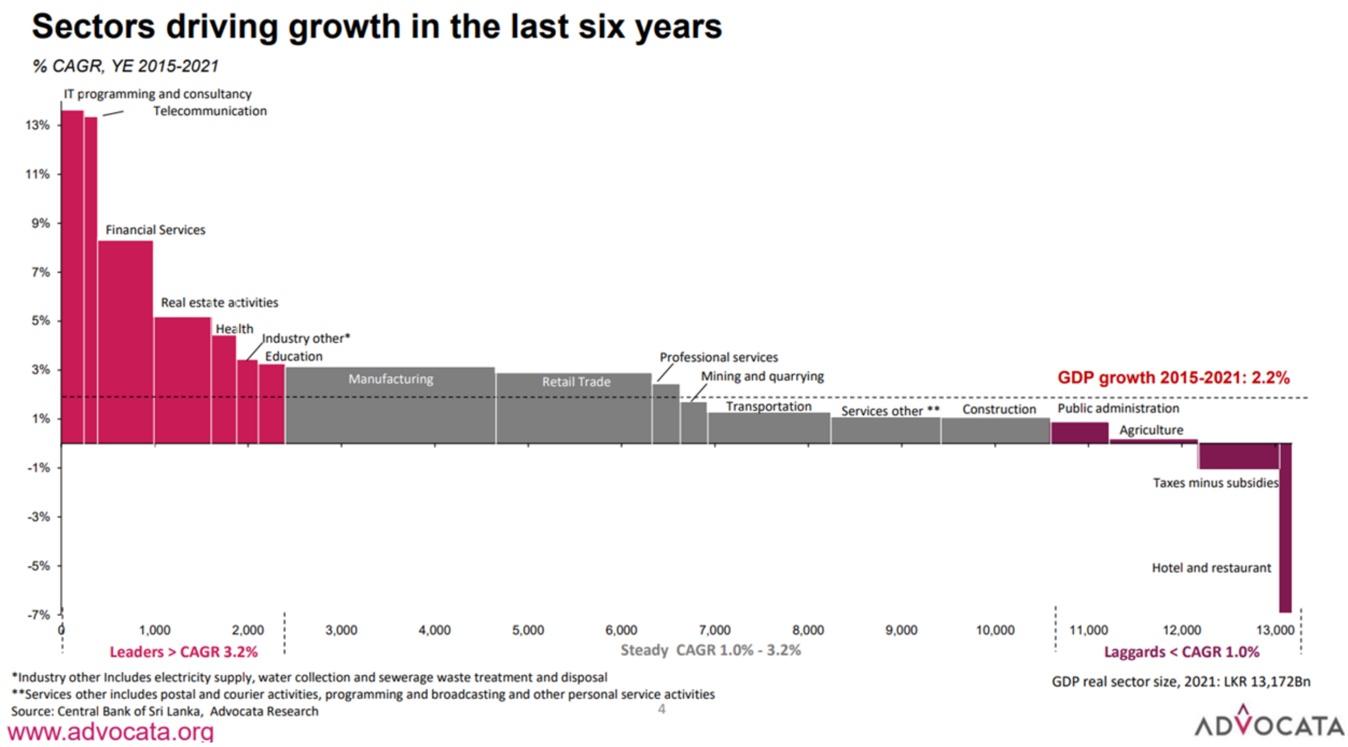
The Central bank of Sri Lanka have forecasted that the economy will shrink by 6 % in 2022, which will be a record. During COVID (lockdown) the economy shrank by about 3.5%, and earlier in 2001 when LTTE bombed Katunayake Arport, the economy shrunk by about 1.5%. Otherwise, we have always had positive economic growth. The IMF has given us a 7% contraction in GDP. I feel that there will be a larger contraction. The construction industry will be decimated; a bag of cement which was Rs. 1000/- has gone up to over Rs. 3000/-. Paint prices have gone up by 500%. There will be some segments of the economy that will shrink significantly. Consumer staples will however have less of a decrease. Certain personal care items such as perfumes, creams and deodorants have declined significantly. Pharmaceutical business is stable as it gets preferential allocation on dollars. Discretionary items such as washing machines, refrigerators and televisions will face a huge contraction. Transportation which takes up 10% of the GDP is also under contraction.

Within the time span of 2015-2021, on average Sri Lanka economy sustained a growth rate of only 2.2%. There are some sectors such as IT and Telecommunication, Financial Services, Real estate, Health and Education that grew at higher levels. In contrast, there are many other industries growing very slowly. In my view, there will be a significant economic contraction accounting for 5%-7% approximately, while discretionary products probably might see 10%-20% demand contraction. GoSL has also suspended projects, construction industry will probably see a larger amount of a demand contraction about 30%-40%. Meanwhile, due to unaffordability and unavailability, durable goods will also see a demand contraction of about 40%-30%.

From a governance perspective, what measures need to be taken to put Sri Lanka back on the path of sustainable borrowing, for economic growth?

We need to generate the resources as much as possible within Sri Lanka. It is not borrowing that we require. When people see lots of buildings erected they interpret it as development. I argue that it shows a whole heap of imports; steel, cement, paint etc. We have to reduce on spending both on investment and consumption and be efficient. Most importantly we must price commodities at their scarcity value. We have miserably mispriced energy. Logistics in Sri Lanka is inefficient. For an example; when Lorries bring vegetables from up country, most of the time on its way back, its empty. More attention towards optimization is needed. The country needs to export to grow the economy with a tighter monetary and fiscal policy to dissuade spending. We have to improve economic governance. There is very poor accountability because our legislators are not doing their job. They refuse to serve the interest of the people but serve their own interest.

Firstly we will have to have some fiscal rules which ensures that we have a binding constraint of not having a deficit more than 3% of GDP. Secondly Sri Lanka needs a budget office; ideally an independent think tank of the parliament that estimates all policies so that we understand the fiscal impact of what the GoSL tries



to do from a revenue or expenditure perspective. Thirdly, we cannot continue to spend 400 billion rupees on defense and security and public law and order which is more than what we spend of Education or Health. We must ask the question after 30 years of civil conflict, "Why do we have to have such a large military?" Which is in fact larger than the British military where the population is 3 times bigger than Sri Lanka and having military bases all over the world. Most of the services offered to military such as logistics, catering and laundry are all outsourced. This excess amount of military spending which is not to buy armaments but to pay salaries. Having 57 major generals, 400 army camps all over Sri Lanka with tens of thousands of soldiers to look after the higher ranked officials. One third of people on government payroll is from the defense security establishments but they consume 50% of the salary bills. There will have to be a significant rationalization in expenditure which cannot be done overnight but it will have to be a planned over the next five to ten years. However, the issue is more to do with very low tax revenue, as a country. There is excessive amount of tax exemptions being given to industries which needs to be relooked at. The top 10% of households gets 36% of National Income. The next 10% get 15%. Which means the top 20% of households gets 51% of the National Income but the bottom 10% households' only gets 2% of National Income. What has happened to our country is that there is a prosperous class who are having a great life, but the bottom is a mess.

One third of people on government payroll is from the defense security establishments but they consume 50% of the salary bills.

How to you think the image of Sri Lanka as an investment destination might have been affected by the present crisis? Do you believe that foreign investments into projects such as the Colombo Port City would be drastically impacted?

I'm afraid with the current crisis, except for distress investors who specializing in coming into highly troubled situations where they believe they can buy assets at significant discounts to fair value, no other right-thinking investor would invest in Sri Lanka. Even Sri Lankan business community is holding back their future investments thinking about extending their businesses in foreign markets rather than in Sri Lanka.

Until we have macro stabilization and political stability it is extremely difficult to rebuild confidence.

It has been said that Sri Lanka consumes more than it produces. Taking a long-term view, what can be done to strengthen Sri Lankan exports? What policy incentives are needed to compel local and foreign entrepreneurs to produce goods and services in Sri Lanka, for export?

When Harvard center for business development came to Sri Lanka they stressed on our exports. They said the structure of our exports haven't changed over the past 15-20 years. Based on them, we have added only 5 more new products to the export basket. They showed comparison from other Asian countries such as Thailand and Vietnam and how they have significantly diversified their export basket. We must do the same thing. We will either have to use foreign direct investment channels where we bring in foreign companies who are efficiency seeking and export oriented. In the recent past, we have got FDI only for infrastructure projects such as the Port city, to develop real estate, or try to sell to the domestic market. We have very few instances that attracted companies that want to use Sri Lanka

However there is a minority that will be affected and it is this minority of people who are vocal and talk bad about the IMF. In Sri Lanka's case, the IMF is now the only option.

as a production base for the world. Secondly, we should try to export through diaspora channels. Harvard research (2016-2018) have also shown that the diaspora that has left Sri Lanka for economic reasons are more willing to engage with their mother country than the diaspora that fled due to political and security reasons. Thirdly by traditional exports - we need to have a massive production revolution in our export products. For example, tea, rubber, coconut productivity levels are very low. The rubber yield in most Southeast Asian countries are 1500 kilograms per hectare and in Sri Lanka it is 950 kilograms per hectare. We lack in productivity not land area or human resources.

How important is the role of the IMF in Sri Lanka's economic recovery? How will the economy and the everyday lives of Sri Lankans be impacted by entering into a program with the IMF? Any conditions that may be stipulated by the IMF that you believe might be detrimental to Sri Lanka, in the long term?

The IMF is the only game in town. It's a Bretton Woods institute that was setup after WWII which was designed to prevent countries from collapsing. We have gone to the IMF 16 times and going again for the 17th times isn't a big deal. We go to IMF when the country is very sick to be cured. They tell you how to cure yourself. In the case of economies, living beyond their means, not having a competitive economy, not having sufficient tax revenue, excessive size of government can make it sick. The IMF will suggest suitable adjustments. The majority of the population actually will be benefitted by these adjustments. However there is a minority that will be affected and it is this minority of people who are vocal and talk bad about the IMF. In Sri Lanka's case, the IMF is now the only option.

As a response to the present crisis, the GoSL removed the soft peg of the LKR, increased interest rates and removed subsidies for fuel among other measures. These actions have led to a steep increase in inflation, 33.8% by end of April. What policy measures are available to GoSL at present, in its current hampered capacity, to relieve some of the pressures of the rising cost of living?

Sri Lanka has serious volatility for headline inflation coming from the food segment. This in my opinion is caused by the supply disruptions. The fertilizer issue had a big impact and so did transportation problems etc. It will probably take a year to come back to normalcy. To add to this, there is a global inflationary impulse that is happening. Diesel in the world market was half the price a barrel one year ago. Today its 180$ a barrel. At that price, Diesel prices in Sri Lanka will also have to increase by another 20%. Electricity prices should be doubled to cover production costs. Kerosene which is sold at Rs. 87/= should be sold at Rs. 450/=. Third reason is demand-pull inflation due to monetization of the deficit. Some of it is not within the control of the Sri Lankan government but some of it is. Currently the Central Bank is acting through much more stringent monetary policy. The taxes have slowly been increased and the fiscal constraints are also coming. What must be done to help the bottom 10% of the people, is to cash transfer. For an instance, the Samurdi Development should be used to redirect money to the low income population while the taxes are increased for the top level Population.

How has the ForEx crisis impacted foreign trade (imports / exports)? What are the long term implications of restrictions on imports

Many of these companies are now having serious difficulties as their working capital is getting impacted with foreign banks reducing their exposure in Sri Lanka.

and increase in custom duties on certain goods? In your opinion, will these policies result in a growth (import substitution) or a contraction of the economy, in the long term?

We have to impose restrictive policies because it is about survival. We can't export if we can't import. A lot of healthy businesses are getting significantly impacted by these rules and regulations. Other problem is because of the economic crisis, the country risk has been elevated. Some of the foreign banks operating in Sri Lanka are cutting their credit lines to some of the best companies in Sri Lanka who are exporting around 30%. Many of these companies are now having serious difficulties as their working capital is getting impacted with foreign banks reducing their exposure in Sri Lanka.

Since the restrictions on imports, the shipping industry has been adversely affected. What would your advice be to industry experts to rebuild confidence of shipping lines and retain volumes and allocations?

Some of these blank sailings which their talking about are not related to Sri Lanka. There is a major global disruption in shipping and excessively lose monetary and fiscal policies in the developed world. American markets are crashing as we speak. There is a serious issue in Housing mortgages in the US used to be 3% which is 6%. Property prices are elevated in those countries although the income isn't going up to compensate. There's excess demand which has created a shortage of containers. That explains half the issue with blank sailings. Second problem would be us not being able to pay in dollars. Many shipping lines are doing more shipments in FOB terms which means that the customer is paying for shipping. Our exports are going into FOB terms but there is more import cargo coming to Sri Lanka than export cargo going out.

How long would it take for Sri Lanka to reach the economic growth and activity levels of 2018 /2019, (pre- Easter Sunday attacks)?

In Literature, when countries get into sovereign default there is a phenomenon called the lost decade. The lost decade may have already started a few years back. It is highly unlikely that we will make a rapid recovery. Following a massive contraction such as what we are having this year, we may have a rebound and there will be a very slow recovery. Although as I have estimated, there will be about 1000 firms that will go into bankruptcy soon. We don't even have a bankruptcy policy in our country. There will many jobs lost as many businesses fail. Generally, for us to come back to stability it will probably take a decade. On the bright side, this is the opportunity of a lifetime for many generations after the independence, to fix things. This crisis is giving an opportunity to change for the better. Unfortunately all I have witnessed is that the politicians are playing musical chairs. We don't need musical chairs we simply need the actors to change. We have a district based system for which one needs too much money to win at an election. It was estimated before the currency depreciation that one needs Rs. 200-300 million to fight the elections successfully in Colombo & Gampaha. Instead of the current preferential system, I am suggesting the German system where there are two votes per voter. One for the party and one for the candidate in your local electorate. We need to change the electorate system.

STAGFLATION in SRI LANKA? RISKS AND POLICY RESPONSES

Binura Seneviratne

Binura Seneviratne is a Research Officer working on macroeconomic policy, poverty and social welfare research at IPS. He holds a Master of Economic Policy from the Australian National University and a BSc in Economics and Finance from the University of York. (Talk with Binura: binura@ips.lk)

IPS
TALKING ECONOMICS

'Talking Economics', the blog of the Institute of Policy Studies of Sri Lanka (IPS)

Featured Image Credit: Reuters/Dinuka Liyanawatte

The world economy is showing signs of a serious slowdown due to overlapping crises including the Russia-Ukraine War, the COVID-19 pandemic, China's real estate crisis and the global tightening of monetary policy. In June, the World Bank revised the 2022 growth prediction downward to 2.9% from its January forecast of 4.1%. The slowdown has come along with a decade-high bout of inflation worldwide with the global median Consumer Price Inflation (CPI) inflation rising to around 7.8% on a year-on-year (YoY) basis, the highest since 2008, according to April 2022 data (Figure 1). The emergence of a low-growth international environment together with a significant rise in inflation has raised concerns of stagflation; a period of low growth combined with high inflation.

THE EFFECTS OF STAGFLATION

A global stagflationary environment could further weaken global economic growth while increasing inflation.

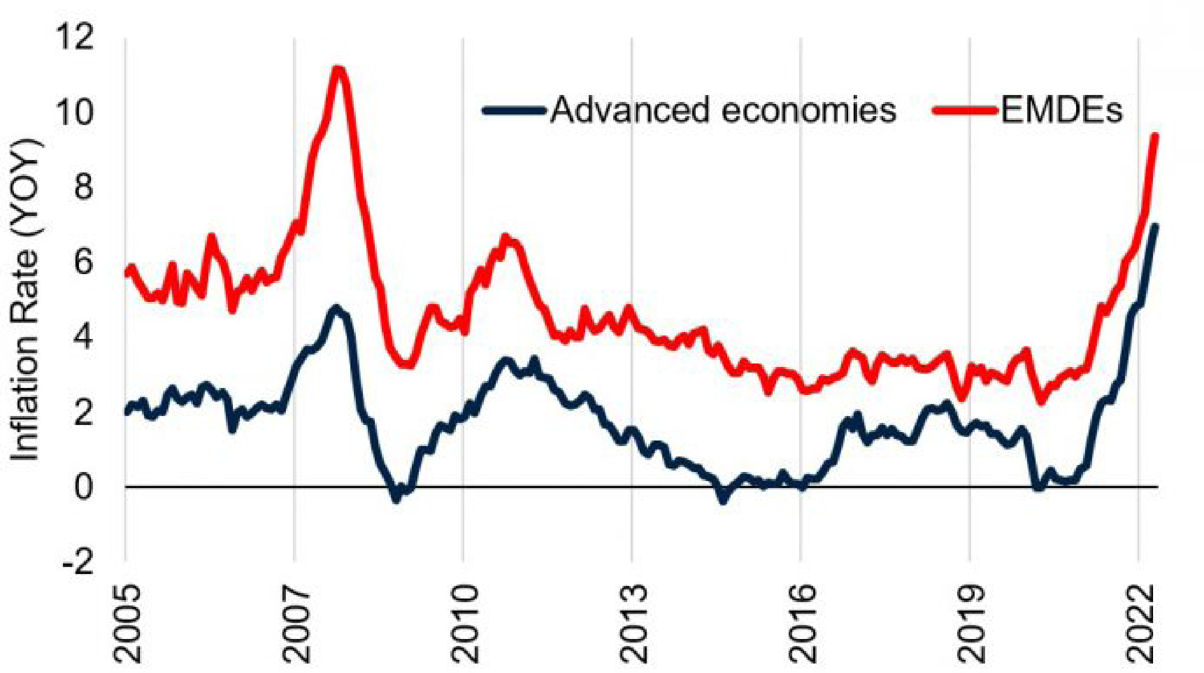
To combat inflation, many central banks including the US Federal Reserve, the Bank of England and the European Central Bank have resorted to monetary tightening measures. The rise in global interest rates as a direct attempt to anchor inflation expectations will further subdue economic growth thereby increasing borrowing costs globally. This results in a downward economic cycle as rising borrowing costs will reflect in lower investments. The effects for developing countries could be more pronounced as inflation will hit the poorest and the marginalised the most. Weak global growth will decrease export income in these markets while higher global commodity prices will increase import expenditure leading to macroeconomic imbalances.

RISKS FOR SRI LANKA

A global stagflationary environment can worsen Sri Lanka's current economic crisis restricting growth and increasing inflation. Higher global borrowing costs will be detrimental to Sri Lanka's future growth when the country resumes international borrowing once an IMF agreement is in place. The rise in commodity prices could further increase the country's worsening food insecurity, with the World Food Programme reporting that 25% of the population is food insecure. Higher commodity costs will also increase import expenditure while lower global

THE RISE IN COMMODITY PRICES COULD FURTHER INCREASE THE COUNTRY'S WORSENING FOOD INSECURITY, WITH THE WORLD FOOD PROGRAMME REPORTING THAT 25% OF THE POPULATION IS FOOD INSECURE.

Figure 1: Monthly CPI Inflation, Year-On-Year



Source: World Bank (2022), Global Economic Prospects, June 2022. Washington, DC.

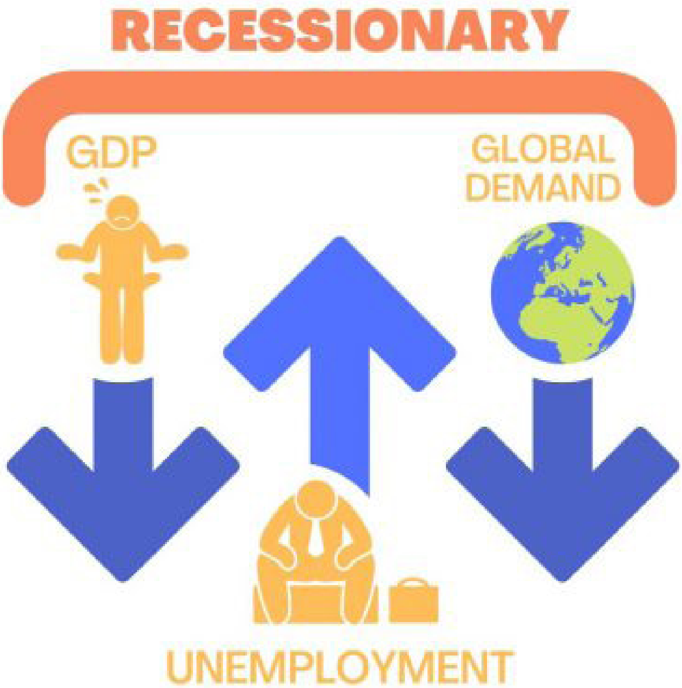
THE ADVERSE EFFECTS OF GLOBAL STAGFLATION

1. Decreased economic growth

Due to the recessionary aspect of global stagflation, Sri Lanka's GDP growth rate could decline as global demand decreases for Sri Lankan exports. Unemployment rates could rise.

2. Increased inflation

Due to the rise in global commodity prices, inflation in the local economy could increase.



DUE TO FINANCING CONSTRAINTS, SRI LANKA WILL HAVE TO LOOK FOR FURTHER BILATERAL AND MULTILATERAL AID IN SECURING FUNDING FOR SHORT-TERM, TARGETED "IN-KIND" TRANSFERS SUCH AS FOOD STAMPS.

demand could reduce export revenue thus expanding the current account deficit. However, if global inflation is transient, the effects on the current account would be ambiguous. The global economic downturn will spark lower demand for commodities such as oil which could lower import expenditure but also reduce the demand for Sri Lankan exports.

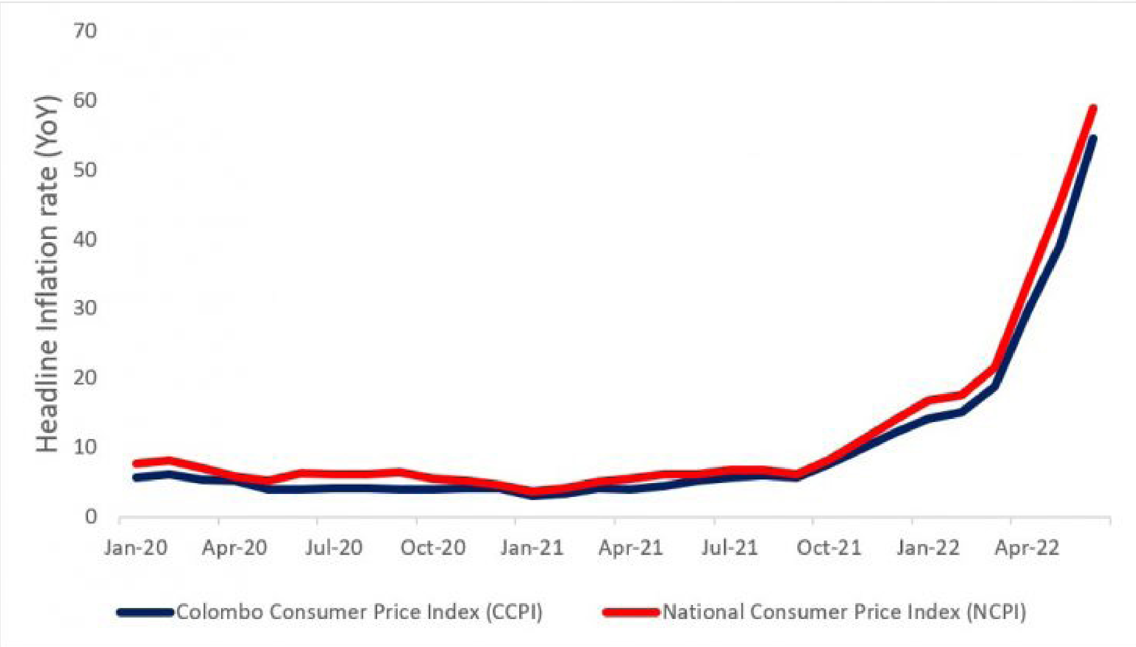
Due to rising inflation and lower growth, the Sri Lankan economy is approaching stagflation. Growth expectations for the country have nosedived after the sovereign default with the economy projected to decline by -7.8% in 2022 and -3.7% in 2023 according to the World Bank. The combination of a myopic "organic" agricultural policy, the inflation pass through from the depreciation of the Sri Lankan Rupee by 80%, an expansionary monetary policy and global market conditions have resulted in inflation surging to 59% in June (YOY) (Figure 2).

The tightening global economic conditions along with domestic supply-side factors such as shortages in food and fuel will continue to drive inflation in the country. Increased policy rates to combat inflation will result in lower investments. These factors, combined with political instability, lower-than-expected remittances, and lower productivity due to acute shortages of essential items will further constrict the Sri Lankan economy, pushing it into stagflation.

POLICY OPTIONS

Sri Lankan policymakers are constrained within this economic environment. The country will need to impose austerity measures to receive an extended fund facility from the IMF. These measures will include tax reforms to increase government revenue, curtailing non-essential government spending and reducing subsidies. While a fiscal stimulus package is out of the equation, the country needs to target the most vulnerable groups in providing emergency subsidies, as rising inflation and job losses have led to lower standards of living, especially among the vulnerable segments of the population. Due to financing

Figure 2: Consumer Price Inflation (Jan 20 - May 22)



Source: Central Bank of Sri Lanka data.

constraints, Sri Lanka will have to look for further bilateral and multilateral aid in securing funding for short-term, targeted "in-kind" transfers such as food stamps. It is also imperative to have a bridge financing arrangement, to import essential commodities like fuel, so that supply shortages reduce. This should help in keeping productivity intact and inflationary pressure in check.

Monetary tightening should also continue. The CBSL hiked interest rates by 700 basis points in April this year. Interest rates were increased by another 100 basis points in July to control the rising inflation (Figure 3). Monetary policy decisions need to be communicated very clearly so that there is a stronger anchoring of inflation expectations. Anchored inflation expectations would limit a wage-price spiral to control inflationary pressure so that production costs do not rise further. Due to a global economic downturn, rising commodity prices and high rates of borrowing, Sri Lanka can expect a challenging external sector environment next year. Policymakers will need to understand these global challenges and make pragmatic economic decisions to minimise further damage to the economy.

Figure 3: Change in Policy Interest Rates of the Central Bank of Sri Lanka

Source: Central Bank of Sri Lanka data.

SRI LANKA'S RUNAWAY INFLATION AND THE LIMITS OF MONETARY POLICY

Dushni Weerakoon

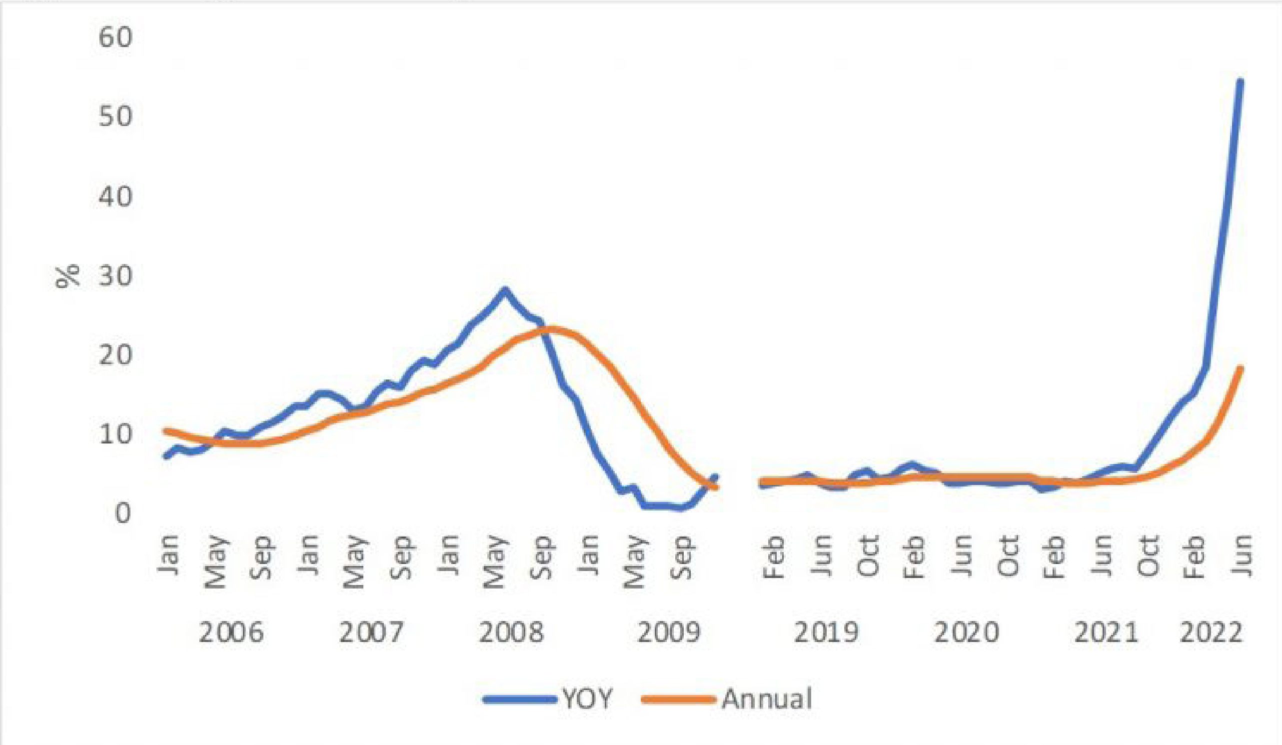
Dushni Weerakoon is IPS' Executive Director and Head of its Macroeconomic Policy research. She has nearly three decades of experience at IPS, and functioned as its Deputy Director from 2005 to 2017. Since joining IPS in 1994, her research and publications have covered areas related to regional trade integration, macroeconomic policy and international economics. She has extensive experience working in policy development committees and official delegations of the Government of Sri Lanka. She holds a PhD in Economics from the University of Manch

TALKING ECONOMICS

'Talking Economics', the blog of the Institute of Policy Studies of Sri Lanka (IPS)

Featured Image Credit: Reuters

Figure 1: High Inflation Episodes



Source: Department of Census and Statistics (DCS).

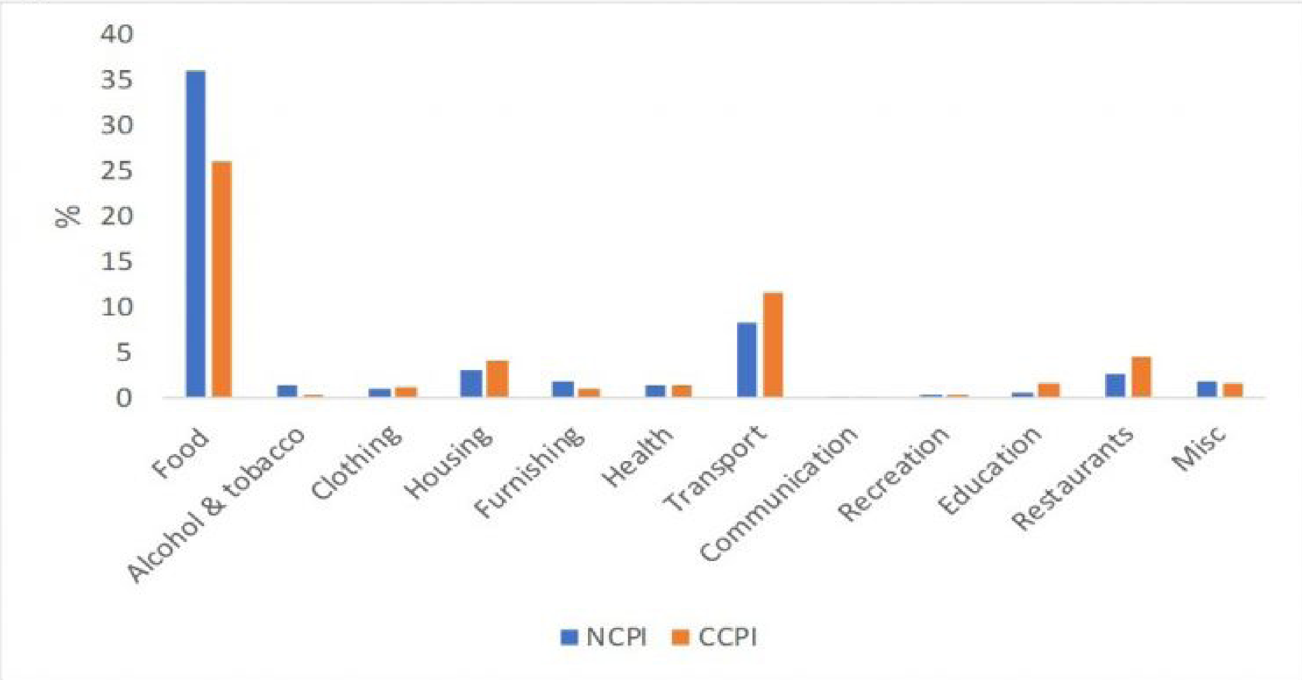
TODAY, INFLATIONARY PRESSURES HAVE INTENSIFIED THE WORLD OVER WITH COUNTRIES LIKE THE US AND THE UK SEEING INFLATION RATES HIT 40-YEAR HIGHS.

The bad news on inflation keeps coming. As of June 2022, year-on-year (YOY) inflation nationally is estimated at an all-time high of 59%. Annual inflation is lagging significantly behind at around 21%, indicative of the speed at which price inflation has been spiralling in recent months. This is in sharp contrast to Sri Lanka's previous bout of high inflation in 2008 where the YOY increase was far more gradual (Figure 1). Then too, a similar combination of factors was at play. On the external front, a global financial crisis, a spike in international oil prices and sky-rocketing food prices prevailed. On the domestic front, a depressingly familiar combination of unsustainable fiscal, monetary and exchange rate policies were in place.

This time around too, the inflation bout was triggered by a series of macroeconomic policy blunders in managing the fallout of the COVID-19 pandemic; an untenable red hole in public finances, a massive injection of liquidity within a short time span, and an improbable exchange rate policy combined to bring about Sri Lanka's harshest economic collapse. The inflation 'pass through' from the more than 80% currency depreciation that followed amplified the global price increases in food and fuel. The ban on chemical fertiliser use, import controls on food and high costs of transport added to the shortages, driving up prices further.

While Sri Lanka is still well below the commonly used threshold for hyperinflation (monthly inflation exceeding 50%) the rampant inflation this time around is consistent with a serious crisis of confidence across the economy. Monetary policy – i.e.

Figure 2: Sector-wise Contribution to Inflation



Source: Based on data from DCS.

INFLATION IN JUNE 2022 SHOWS THAT DEMAND-DRIVEN DOMESTIC INFLATIONARY PRESSURES APPEAR TO BE RESPONSIBLE FOR MUCH LESS OF THE RISE IN HEADLINE INFLATION.

raising interest rates – is the most appropriate tool at hand to fight inflation, but there are limits to its efficacy.

Today, inflationary pressures have intensified the world over with countries like the US and the UK seeing inflation rates hit 40-year highs. Unlike Sri Lanka, the inflation trigger in many of these economies was set off by buoyant demand and tight labour markets as countries emerged from the COVID-19 pandemic. The Russian invasion of Ukraine that followed went on to fuel energy and food price increases and add to supply bottlenecks – already battling a combination of challenges including a resurgence of COVID-19 in China. Almost everywhere, central banks embarked on a monetary policy tightening cycle, with New Zealand and South Korea starting early and aggressively. The intention is to anchor inflation expectations and cut off more persistent strength in nominal wage growth. Thus, the upswing in inflation and interest rate cycles point to a downswing in growth globally in 2022.

Having kept monetary policy too loose for too long, Sri Lanka started its tightening cycle in August 2021, albeit with timid steps – raising policy interest rates by a total of 200 basis points up to March 2022 even as inflation breached double-digit figures in November 2021. This was followed by an aggressive 700 basis point hike in April 2022. It signalled firm intentions to regain the Central Bank of Sri Lanka's (CBSL) focus on price stability by engineering a reduction in demand through high interest rates and withdrawing liquidity from the economy. Effectively, in the current dire growth outlook for Sri Lanka, the policy intention means forcing a recession

to tame inflation.

In choosing between the options of an aggressive hike that will lead to a recession or tolerating a prolonged inflationary spiral bordering on hyperinflation, the former is preferable. Once inflation takes hold, the damage can be corrosive, especially its deeply regressive impacts on lower-income households. But a contractionary strategy to suppress demand will not achieve the desired outcomes if (a) inflation expectations are not well anchored and people expect rapid price increases to continue, and (b) supply side factors remain unaddressed.

A sector-wise breakdown of the National Consumer Price Index (NCPI) and the Colombo Consumer Price Index (CCPI) of YOY inflation in June 2022 shows that demand-driven domestic inflationary pressures appear to be responsible for much less of the rise in headline inflation. Food price increases are contributing the largest share of 36% towards the YOY national increase in inflation in the NCPI (carrying a weight of 44%) while it contributes a similarly large share of 26% in the CCPI (with a weight of 28%). Transport is the second largest contributor (8-11%) in both indices. Overall, the strength of inflation appears to mainly reflect the large increases in energy and food prices; in fact, when inflation is driven largely by excess liquidity and demand, price increases across goods and services tend to be more uniform.

With runaway inflation, tightening monetary policy hard and fast was almost inevitable to anchor inflation expectations. The policy will work though only if fiscal adjustments evolve in line with monetary policy. Sharp interest rate increases make government debt even more expensive to service, and when interest rates exceed economic growth, a country's indebtedness keeps rising. Higher interest rates in the current context of a crisis of confidence overall in the economy, and especially on exchange rate risks, means that it will not be reflected in stronger capital inflows to stabilise the rupee either.

Upward pressure on inflation in Sri Lanka will not dissipate immediately. Continued direct financing of Treasury spending by the CBSL, high global energy and food prices, and continuing domestic supply-side factors – food and fuel shortages, import policies, and related market distortions – will add to price increases. Thus, the current upswing in real interest rates will likely go further if it appears that the policy mix is unable to reverse the inflation trend.

At this crucial juncture, prompt action on all macroeconomic policy fronts simultaneously is essential to help the CBSL put price stability at the core of Sri Lanka's monetary policy framework and better anchor inflation expectations. If workers and businesses are unconvinced that runaway inflation is firmly in check, higher price expectations will feed back into the process, making the fight against inflation even harder. It will also delay the recovery from recessionary conditions – through cuts in investments and shortening of investment horizons that ultimately hurt employment and jobs – as the country looks to ease back from the current economic crisis.

An interview with

Mr. Bingumal Thewarathanthri

THE ROAD AHEAD FOR SRI LANKA

A brief background on yourself and how you entered a career in Banking?

It was never on the cards. I was a Bio Science student intending to join either medical school or the science faculty. At that time, there was a two-year waiting period to enter university due to a backlog created with the insurgencies of 88/89 and the civil war. So, after taking my A/Level exams, I joined a bank to keep myself occupied and to secure an income as a youth, until it was time for our intake. But by the time the cut-offs were announced, I was already well-settled in my job. There was no guarantee that I would be graduating on time as it was hard to keep the universities open as scheduled due to the situation in the country. So, I decided to continue working in the Banking field. However, it took me 10 years to embrace banking as my career. My entire family was involved in the banking industry, and I wanted to do something different, so it was hard for me to accept that I was simply following the beaten path. Anyway, I started as a Teller at Seylan Bank and gained exposure in branch management for 3 years. Then I moved to Pramuka, a new development bank, where I stayed for 5 years, learning and working

Sri Lanka has got a golden opportunity to reset the economy. This is a time to bring in the fiscal and SOE reforms and good governance to the system.

in SME lending. Following the closure of Pramuka Bank, I was without a job for a month. I then joined LOLC where I was exposed to selling leasing and lending products covering the Southern belt. At LOLC, I worked with a vast range at various levels of SMEs. I was also a recipient of the NASCO Award while being employed at LOLC. I was then hired by Standard Chartered Sri Lanka to run a supply chain SME portfolio in the Corporate Banking division under Transaction Banking. Here, I gained experience in Transaction Banking over three years which led me to be recognised as a star performer at a global sales conference. This was a time when the East African region was looking at launching supply chain finance. Hence, I got an opportunity to be posted to Tanzania to run the Transaction Banking business. Upon my return to Sri Lanka in 2009, I continued to work with the Transaction Banking segment for three and a half years. I was then posted to Mauritius where the Bank had bought a business and was looking at setting up a new Transaction Banking Unit for the Mauritius franchise. As Mauritius is an International Financial Centre (IFC), I was able to work closely with the BOI and the Government of Mauritius to position the country as a Regional Treasury Centre (RTC) for Africa. I also created a financial institutions booking centre for African banks in Mauritius. While working in Mauritius, I also had the opportunity to manage the Transaction Banking business for Zimbabwe. I was also in charge of the custody flows to 17 Sub Saharan African markets. After an excellent 3 ½ years, I returned to Sri Lanka in 2016 and I got the opportunity to head the Retail Banking segment of Standard Chartered Sri Lanka in 2017. Due to my experience and expertise across geographies and business segments, I was appointed as the first Sri Lankan CEO of Standard Chartered Sri Lanka in 2019.

What are your thoughts on the current economic crisis in Sri Lanka, and what can private banks do to improve the confidence in depositors?

We had a once-in-a-century kind of event - the pandemic - and we thought that was the biggest challenge we would ever face. The world is recovering from the pandemic and gradually returning to normalcy, but Sri Lanka is now faced with a serious economic crisis. We have seen similar challenges in a few emerging markets such as Pakistan, Ghana and some others, where the ratings have been downgraded and market access was lost. Globally, we have seen inflation rising with markets such as the UK recording a 10% inflation and Central Banks increasing rates with tightening monetary policies. Meanwhile, we are also witnessing food shortages in some countries. This is also fuelled by the rising crude oil prices, which has led to a BOP stress in many of the import-driven countries.

We have 3 problems in Sri Lanka, the first being the foreign exchange crisis which we have been witnessing over the past two years. The second is unsustainable debts and the third, political instability. All these problems are the result of a lack of foreign exchange which led to a larger economic crisis. I have been living in this country close to 5 decades, and this is one of the worst crises I have ever experienced in my life. Has the country experienced bad periods before? Yes. Has the country experienced civil unrest before? Yes. We have seen many difficult times, but this is a unique challenge. People cannot buy essentials even if they have the cash for it. So, from that perspective, I think this is a unique, difficult, and long-term challenge faced by the entire country. We cannot get out of this within the short term even with an IMF programme. If we do not do necessary reforms immediately, we will face the same challenges in another 4-5 years and Sri Lanka will be going back and forth with this issue. We cannot be going for debt restructuring again and again. Sri Lanka has got a golden opportunity to reset the economy. This is a time to bring in the fiscal and SOE reforms and good governance to the system.

Banks will face severe challenges with a potential debt restructuring, depending on their exposure to local and foreign debts. The IMF will only approve a programme if the debts are sustainable within a given period. Looking at the current debt-to-GDP ratio, we cannot rule out a potential local debt restructuring at this point. But we must wait and see what the bond holders say and what the IMF would indicate as the timeline for debts to be sustainable. We can then determine if the local debt is to be restructured or not. If there is a local debt restructuring, the results will be detrimental to the country. In that perspective, banks are expecting a serious capital erosion. The next thing we should consider is the impact to the import-driven SME sector during the crisis. We believe that a large portion of SME loans will go into the non-performing category. There will also be serious liquidity shortages in foreign currency as well as local currency. Therefore, banks are on a negative watch by the rating agencies. However, you cannot compare one bank against another and say one is performing better

Now the clients expect us to understand their needs and wants better and customise solutions accordingly.

than the other. This isn't a problem with an individual bank. We need to work as a community to come out of this crisis. However, at this juncture, we can positively say that we are managing this crisis well. We have hit rock bottom, and since the bottom is unfortunately very deep, we will take time to recover.

Due to the current USD crisis, shipping companies having many issues in remitting cash to their principals. Is there anything the banking sector could do to assist?

We look at three critical areas: Food, Pharmaceuticals and Energy, with energy taking priority, followed by food and pharmaceuticals. After these, shipping and aviation would be next on the list. We are one of the largest banks servicing the aviation and shipping industries in the country. We have some of the largest general sales agents (GSAs) with us. We have been supporting these industries in the last 2 years and continue to support them. For us, it is an essential industry since it is linked to exports and tourism. However, we need to prioritise between the two main requirements of the shipping industry, settling the principal and importing jet and bunker fuel.

Standard Chartered Bank is a AAA rated bank; what extra steps were taken in the last few years to maintain this rating, specially during tough times?

Standard Chartered predicted this crisis at a very early stage, based on the fact that we had a very slow growth for a long time, which is unusual for an emerging market. We had a high percentage of credit to the private sector with this slow growth, which was not sustainable. Sri Lanka was also running a subsidised economy funded by local and foreign debt. We saw early signs of the economic crisis when the Non-Performing Loans went up in 2018 with the constitutional crisis. Since then, we had a very strict control, with all credit going to colleagues in credit risk and front-line Relationship Management who have scientifically decided where to expose our balance sheet. At the start of the pandemic, we moved away from non-essential imports even before some of the regulatory restrictions came in. As a result, we are one of the largest banks supporting the export sector and one of the largest foreign currency providers in the market. Also, not to forget that we are a branch of Standard Chartered London, where parental support is provided when necessary.

With the world moving well beyond digitalization and adopting AI and blockchain, how has the banking sector embraced this change and what changes could customers expect in the future.

All the banks integrate some of the latest technologies into their systems regularly. We are one of the first banks to talk about digital fitness in the workforce, more than 5 years ago. We have a Digital Squad in the Bank which meets every month to discuss the future in the digital space. Technologies around Industry 4.0 such as Big

Data, AI and IOTs are some of the topics under discussion. The Digital Squad has helped us in creating a digital mindset among our colleagues. Globally, we also have our own SC Ventures business unit with a purpose of re-wiring the DNA in banking. It provides a platform and a catalyst for Standard Chartered to promote innovation, invest in disruptive financial technology and explore alternative business models.

The Central Bank of Sri Lanka came up with a long list of items they wanted to implement in this space. However, banks had to deprioritise many of them due to the pandemic.

With Millennials and Gen-Zs taking a larger share of the workforce, hyper personalisation has become an important component across all industries. Gone are the days where standard products are sold through standard channels. Now the clients expect us to understand their needs and wants better and customise solutions accordingly. Customising is facilitated best when you understand the client better using AI and analytics. Hyper personalisation is about following your thought process through digital channels, big data and AI, and offering a product at the correct time with good tracking systems in place. Machine learning plays a big role in capturing

The working-from-home concept was there on the cards even before the pandemic, but it was properly implemented during the pandemic.

behavioural patterns using multiple channels; for example, credit card usage, savings account behaviour and travel behaviour using apps such as PickMe or Uber. Every bank is now doing some amount of data-driven product offerings. However, hyper personalisation is still at a very initial stage in Sri Lanka.

Using these technologies how better can we help the economy grow?

There are many ways of doing this. For example, we eternally struggle to understand the potential worker remittances to the country. This can be easily tracked if there is a central depositary of the foreign workforce and their bank accounts. The other big area is using data to provide subsidies to needy communities. We used to enjoy electricity subsidies, fuel subsidies, and the Samurdhi subsidy (1 million families). Do we have a data process to track the number of beneficiaries or families that have obtained these subsidies over the years? Do they actually fall into the vulnerable category? For example, over 2 million people use gas, and about 1.7 million of these users are price inelastic; they must use gas to cook, they have no other available options. Some of them are from low-income families. We never use this data for the gas subsidies. Who are the Kerosine usage population? These are mainly urban poor, and if we are to provide them with subsidised gas, do we have the data to analyse the cost to the Government? Unfortunately, data of this nature is not being collected and analysed by the authorities. Another big opportunity for the government is to use date on the income sources of SMEs and professionals to broaden the tax base. India is an excellent example of technology usage in narrowing the fiscal gap. They introduced Adaar, and the subsidy cost came down drastically on fertiliser and many other areas. The starting point for us would be a digital ID, which has been in the cards for quite a long time.

As a Global organization, what is your view on the difference in work cultures globally and Sri Lanka specially in the new Semi Virtual environment, is there a difference.

There is a general opinion that specifically Sri Lankans misuse the working-from-home facility. However, our individual work ethic is not very different to the rest of the world. It all depends on the organisation's culture. We have seen that the productivity levels are based on each individual across the globe. Some of the Sri Lankan corporates and leaders are of the opinion that employees need to be monitored and their whereabouts during work hours need to be tracked. But we do not believe in micromanaging our employees. 70% of our population are Gen-Zs and Millennials. Therefore, we need to fit into the requirements of employees belonging to these generations. People appreciate flexibility, but they must be responsible in managing their own time and schedules. It's not about office or home; it's about giving people the choice. It is not about the workspace acquired by the employees that is important at the end of the day, rather the output. Working from home should not be an excuse for you to postpone or avoid work-related demands. You need to understand the basic requirements and ethics of your job role. We strongly believe in a hybrid work culture. The working-from-home concept was there on the cards even before the pandemic, but it was properly implemented during the pandemic. Before the pandemic, the Bank had 65%

employees working on laptops, and during the pandemic, this number increased to 99%. We also provided transport facilities for staff members before the pandemic and the energy crisis. Today, we can run the Bank with only 30 people physically present in office due to the platform we have built.

What are your thoughts on the Sri Lankan workforce talent pool currently in the industry, what more needs to be done? Specially in the Banking and Finance industry. Any niche products and services we can get into?

Let's face it. We are a complacent nation, not very driven. That is a huge problem. We have a talented work force with the 2nd largest pool of CIMA graduates in the world after the UK and many with other degree qualifications and MBAs. However, we lack entrepreneurship and leadership skills. Although we are very good at innovation, we lack the ability and resources to commercialise. For example, the manual tractor was introduced by a Sri Lankan, but it was

The first thing to understand and accept is that there won't be any miracles. It is going to take time. We need to stay on course.

commercialised by Japan. We also lack brand building and expanding our brands globally. In comparison to certain other talent hubs in the world, Sri Lankans tend to be a bit laid back. There is a reluctance to put in long hours and hard work, even during the initial stages of a career. As a result, we are less competitive in comparison to markets like Chennai for industries such as the BPOs.

In Banking, we are struggling to find the right skill sets to join the salesforce. People are reluctant to do field sales and would rather prefer to work in a call centre and do tele sales. Many prefer a desk job over a field job. Due to this mentality, the talent pool available in Sri Lanka for certain industries which are heavily dependent on a salesforce is limited.

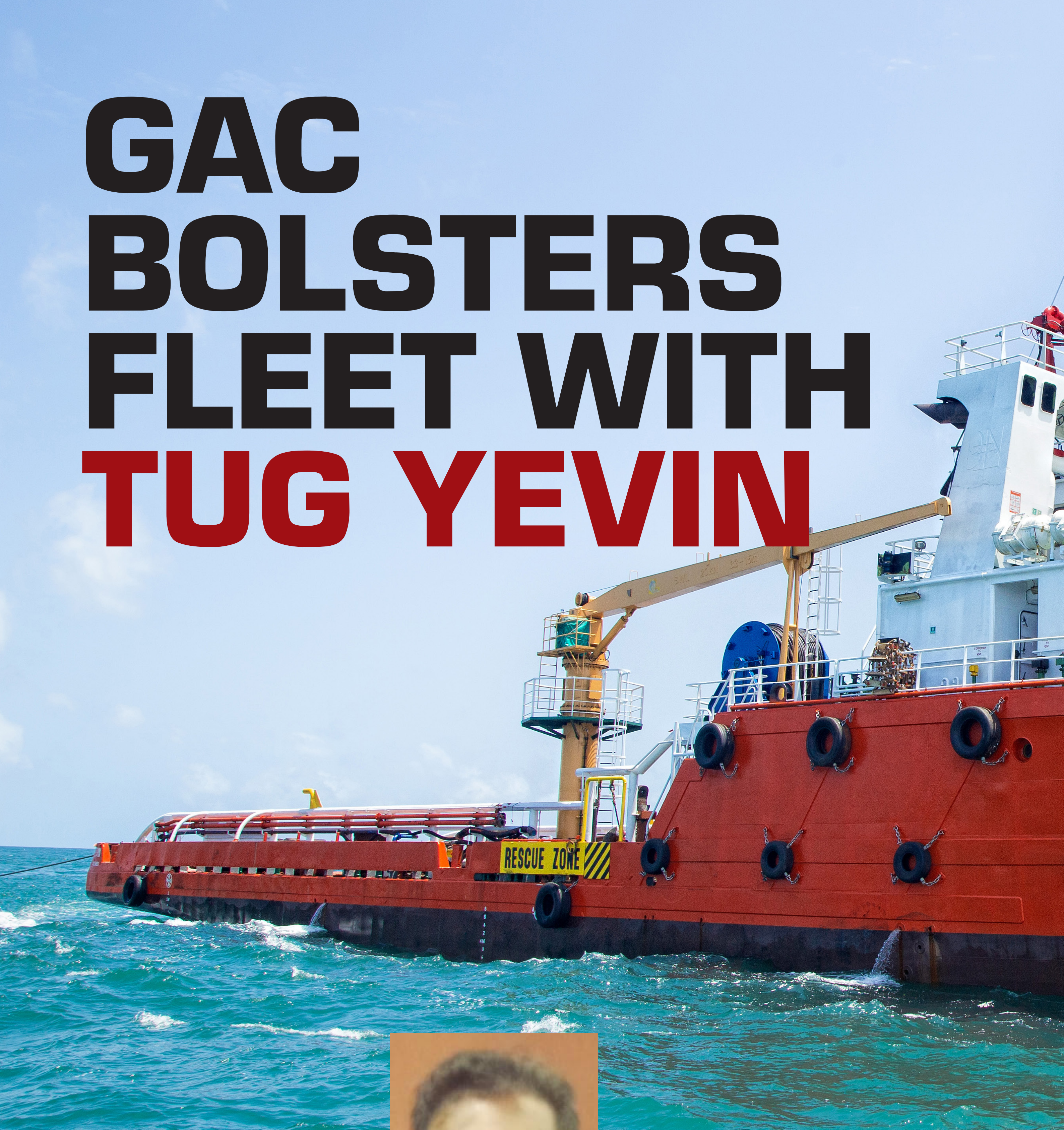
We are generally good at manufacturing niche products and offering niche services. Our Apparel industry, KPOs and some of the IT industries are good examples for that. I personally believe Sri Lanka should focus on Technology and Software exports. It could be a multi-billion-dollar industry. Sri Lankans are naturally good at hospitality; we always have a smile on our faces. We have a rich culture of warmth and generosity, and it starts in our own homes. These are attributes embedded in our DNA itself, and we need to capitalise on it. We should strategically promote our culture in tourism, offer products and services around our unique culture and food, and provide insights into our rich heritage and traditions. Although we have a good service culture, we still have huge potential to expand from our pre-Covid tourism base amounting to roughly 2 million tourists annually.

In the short term, what could we do as a country?

The first thing to understand and accept is that there won't be any miracles. It is going to take time. We need to stay on course. Since the crucial IMF Staff Level Agreement has been inked, we now need to focus on resetting the economy. One key area of focus should be the Fiscal Policy where we need to cut down expenditure and increase revenue. The next big item would be SOE and Government reforms. The other important factor is progressing on debt restructuring. In that aspect, obtaining assurances from the creditors would be critical for the IMF Board-level approval. We have three types of debts - ISBs, Paris Club and Non-Paris Club. Japan is our largest Paris Club lender, and they need the consent of the Paris Club for a restructure. Non-Paris Club involves China, and they also need consent to restructuring debts. The third being the bond holders; the IMF would like to see the consent of a super majority of bond holders for a debt restructuring. In a best-case-scenario, we will complete all these requirements within the next six months, and I do not want to go into detail on the worst-case-scenario right now. We have seen many countries where debt restructuring has got derailed. Two good examples for a comprehensive debt restructuring within a short time period would be Ecuador and Jamaica.

Sri Lanka is at crossroads where the country has received a golden opportunity to move away from a subsidised-heavy economy to one which provides subsidies only for the needy community, and to carry out SOE, fiscal reforms and digitise the whole financial system and take a quantum leap to become the most vibrant economy in South Asia.

GAC BOLSTERS FLEET WITH TUG YEVIN



GAC Sri Lanka's General Manager for Chaetering and Tug Operations,

MOHAN RODRIGO

speakes about the addition of 'Yevin' to the company's fleet.

GAC Sri Lanka's latest service craft, the Anchor Handling Tug 'Yevin', is one of the most powerful and advanced tugs under the GAC's fleet of support vessels.

The fully-equipped 52-metre tug joined GAC Sri Lanka after serving as an offshore supply vessel in Malaysia, and is an invaluable addition to its existing fleet, boosting its ability to meet growing demand for specialised maritime services.

Yevin can accommodate up to 28 persons on board and has ample deck space for cargo. She can operate under tough weather conditions, - both in open waters and within port limits - under the supervision of a hand-picked, experienced crew, and has the staying power to operate well over 45 days at sea, without making a port call.

GAC Sri Lanka's General Manager for Chartering and Tug Operations, Mohan Rodrigo speaks about the addition of 'Yevin' to the company's fleet.

How has the capabilities of the GAC boat fleet has been enhanced by the addition of Tug YEVIN?

With her fire fighting (Fi-Fi) equipment, clear deck space and bollard pull capacity of 64 tonnes, 'Yevin' is the

perfect tug which enables us to offer a much wider range of maritime services including towing and anchor handling assistance, firefighting and emergency response services, enabling GAC Sri Lanka to provide the full range of services as a reliable boat operator / tug service provider.

What are the services YEVIN provides, which were not part of the GAC portfolio of services before?

Fire fighting, salvage and rescue, towing assistance, anchor handling services and bulk deliveries can now be offered, both along Sri Lanka's coastline and in international waters.

Are there any unique aspects of YEVIN or particularly interesting operations she has undertaken thus far?

Her main jobs have been assisting in tows and she has successfully completed many tow assistance operation in international waters. One was a particularly challenging charter operation where she and GAC's Tug 'Nina' towed 2 new-built vessels weighing 1,577 tonnes and 1,199 tonnes from Colombo yard to the West Container Terminal for loading.

We are also looking forward to some very interesting jobs coming up in the near future.

Are there plans to expand the GAC Sri Lanka fleet of tugs?

Yes, there is. GAC Sri Lanka currently operates a fleet of 13 tugs, crew and supply boats, the largest commercial fleet in the country. Following the addition of 'Yevin', we are looking exploring the options to further expand our fleet with bigger and more powerful assets.

Established in 1991 as a joint venture between GAC and McLarens Group, GAC Sri Lanka operates six offices across the country and is the leading provider of shipping, logistics and marine-related services. It is the only agent with physical presence in the country's four commercial ports.