- SL's world competitiveness jumps 17 places to 62 but access to finance is an issue
- Private sector lending must be increased from 1.7 trillion to Rs. 3.5 trillion for 8% economic growth, but require feasible mega projects.
- Banking industry profits annually range from Rs. 30 bn – 50 bn.

Last week when I was invited to address the 22nd Annual Conference of the Professional Bankers of Sri Lanka on the theme 'Gearing Up Sri Lanka as the next financial hub, little did I realise that it was going to be a challenging task of balancing my day-to-day work and trying to understand the intrinsic details of the financial industry.

My mind went back to the days when I used to head a global multinational company. The holy grail of my boss was 'become the best learner and you will do well in life'. I yet follow this ethos.

Finacial Hub?

Sri Lanka's financial sector contributes to 9.7% of the country's GDP and is way above other countries in the region in our part of the world such as Thailand at a 6.2% contribution and Bangladesh at 9%. Sri Lanka can also boast of 22 commercial banks that operate in the country and 5,014 branches across the country. The significance of our banking industry is that all top global banks operate in the country, which is an indication of the market attractiveness of the country even though being a forty billion dollar economy.
I would define a financial hub as an expansion of financial services of a country, beyond its borders globally to a larger customer group which will drive up revenues and also develop resources in a country such as infrastructure, ICT and human resources where by wealth creation takes place.

Some of the leading financial hubs in the world are London, New York, Paris,Tokyo and Sydney whilst the emerging ones are Mumbai and Shanghai which are powered by super power economies which tells us the competition that Sri Lanka is up against.

The challenge

Hence, it is fair to say that we are up against the toughest competition that the world can offer, but the recent World Economic Forum report on competitiveness pushed Sri Lanka up 17 places to 62. This indicates the potential of the country.

It would be also fair to state that the world is watching us on how a typical economy performs post liberalization from terror that has costed the country over seventy five thousand lives and over 200 billion dollars to the economy.

The report has identified the most problematic factors for doing business in Sri Lanka and the first two key issues are ‘tax regulations’ and ‘tax rates’. The good news is that Sri Lanka had appointed a high level commission and after government approval the recommendations are most likely to start hitting the Sri Lankan business landscape in 2011.

This proactive decision making, in my view, has made Sri Lanka poised to be within the top 50 countries of the world in the near future. This also means that it is time that we started working on Colombo becoming a Financial Centre.

If one digs deeper into the World Competitiveness report the next four criteria that Sri Lanka must focus on to increase competitiveness rankings are ‘access to finance’, ‘Corruption’, ‘In-efficiency of the beuracracy’ and’ restrictive labour practices’. I believe that with the recently passed 18th amendments, there is a high propensity for a new era of governance to come into the country, which means that we are poised to be top 20 ‘power’ economy of the world in the years to come.

Access to Finance

From the report it is clear that we need to develop the access to finance criteria, which was exactly the point that was echoed by almost every speaker at the recent Professional Bankers conference. As at mid June of 2010, we see that there is a marginal increase in lending to the private sector by the banking industry as against last year. A point that needs to be highlighted is that the private sector accounts for almost seventy five percent of the GDP and as a priority we need to drive lending from 1.7 trillion rupees to 3.5 trillion if we are to achieve a 8% GDP growth that Sri Lanka is visioning.

This requires risk taking by the banks together with the private sector which has grown their profit base by 196% to 55.4 billion rupees in the first half of 2010. This indicates the potential apetite for growth that the banking industry must be congnisant of, which is bound to happen in the near future.

The best case in point is what the Tourism Industry has been repeatedly harping on, where the construction of a five start property on average will cost around 18-20 million rupees per room. At the current lending rates to cover this investment at a reasonable time period one would have to charge around 200-300 dollars per room for a decent ROI to be achieved. A point to note is that the current average room rate is around 125 dollars in the five-star belt. This highlights the ramification of the current high lending rates and the challenge the banking industry has to integrate with the private sector economy.

Taking this growth industry as a case in point, we see that unless the banking industry links with the private sector, the target of attracting 2.5 million tourists into the country will only be an illusion.The reason being the reality that the current 14,700 rooms in Sri Lanka have a carrying capacity of around 0.8 million tourists which gives us an estimate of the business opportunity for the banking sector in the domestic market.

In my view, before the financial industry caters to customers outside the shores of Sri Lanka, we must see how we can stretch ourself and increase business in the domestic economy. Also, from a moral ground we need to do justice to the soldiers who laid their lives for Sri Lanka and in turn build the economy so that the benefits can be reached by their families who can be gainfully employed.

Two choices for the industry

Aparently the best brains in the county normally is housed in the Banking industry. Which I guess justifies the 30 billion rupees that the industry earns in a tough year and in good times scales to Rs.50 billion plus. In this backdrop my view for this concept of a financial hub remaining in the drawing board for over thirty years is because of the current industry attractiveness, even though some can argue that the Industry Return on asset (ROA) is 1.1% which is the norm globally.

Be that it may the Industry has 2 choices. The first is to focus on the domestic market and thereby strategise to integrate with the private sector growth agenda that accounts for over two thirds of the GDP of the country. The attractiveness of this market is from the current lending value of 1.7 trillion rupees to 3.5 trillion in the next three year horizon. This is a sizable profit opportunity given that the first half year profits of the listed companies alone accounted for 55.4 billion rupees from the previous year performance of 18.7 billion. This is a staggering 196% growth. But it must be mentioned that the private sector will have to come up with projects too, which are attractive to the financial sector.

The other business model is that one must develop the product range and focus on catering to customers internationally in addition to the local market requirements which is essentially the concept of a Financial Hub. This approach will also require policy changes ranging from infrastructure facilities, self regulatory community status, separation from the State, regulatory changes such as opening of the capital account which are serious decisions. See page 4

This will also require lengthy discussions and planning with the policy makers which is the next challenge that the industry will have to commit to.

The benefit from the second business model is that it can spruce up the economy through wealth creation and the industry profits have the propensity not just to double, but also triple where by the financial sector on the whole can contribute to 20% of GDP of the country just like in the case of mature financial hubs around the world.

Hence, the industry will have to decide which business model that it should focus on as a strategy. But a case in point is the Apparel Industry where even without a critical mass a business model was developed and thereafter the policy makers were influenced for serious policy changes to be made and today, this business brings in almost three billion dollars plus into the country and is now targeting five billion dollars in the years to come.

However, given the strength of the financial sector of Sri Lanka and its close link to the key policy makers on a day to day basis, the task of driving in policy reforms in making Sri Lanka a financial hub will be an easier challenge in my view.

Suitable Brand

Whichever strategy that the industry selects, one of the key pegs that needs to be addressed is to make a brand suitable for Sri Lanka. Currently we must accept it that the brand is in question from many fronts. I yet remember when I was managing the global power brand Dettol for Reckitt Benckiser a Marketing Director of Indian origin saying ‘Perception is reality’ in the world of business. I guess this ethos remains even in the case of Brand Sri Lanka. But the challenge is not to critise, but see how we can contribute to brand building. One such strategy is called Nation Branding.

This concept is the work of a scientist called Simon Arnolt. The basic theory is that different attributes of the country is used to communicate the brand values of a nation on selected global customers.

In the outset, an important point to note is that Nation branding does not require fat budgets. It is more about an integrated approach to communication.

If we take a typical customer in UK for instance, the end result is where the different facets of Brand Sri Lanka are wrapped around the typical customer. Lets say in the morning if he switches on to Sky News, he will get exposed to an interview of a Sri Lankan Enterprener who supplies garments to the top UK retail stores and the theme can be on the ethically manufactured proposition of Sri Lanka. Then on the way to work in the tube train he might read the Morning Herald he can be exposed to a press interview of a Sri Lankan politician on a theme such as the Nano park in Sri Lanka and the innovative products it is developing for top end organizations. Then at work, he gets a news alert that Sri Lankan cricketers have won a tournament in some part of the world.

In the afternoon if he decides to savour Asian cuisine and takes a stroll down a street he comes acccross a Sri Lankan restaurant and he tastes the hospitality and the authentic food. May be in the evening at the zoo with the family he gets exposed to a Sri Lankan elephant that has been gifted to this zoo and whist watching it he is served with Ceylon tea. In the evening whilst watching a favourite movie he suddenly realizes that the movie was filmed in Sri Lanka.

This is Nation branding at its best. Hence we see that this concept is all about developing the architecture of Sri Lanka in the minds of global customers, so that over time, a strong positive attitude is formed in one’s mind. Some countries that have successfully used this concept are Turkey and South Africa and maybe a more indepth understanding can be got by the team that will champion this concept in Sri Lanka.

Next Steps

1) Given that the 18th amendment is passed and a stronger government is in place, Sri Lanka is the only country to have a stable political/safe economic climate, the time is right to launch a Nation branding campaign in selected markets.

2) The Financial industry must take a hard look and decide if a Financial Hub fits into the developmental template and if so, a resolution must be passed so that it is official.

3) If yes, then a task force needs to be appointed so that a passionate team takes responsibility to champion this task just like what the apparel industry and the software industry have practiced.

4) The financial hub proposition requires a careful selection of target customers, just like what Malaysia did of zeroing on Middle east, Western Africa and North Africa. We must do the same in the outset.

5) Thereafter, a strong positioning platform must be decided for the Sri Lankan Financial center. Malaysia selected the position of an ‘Islamic Financial Center’ proposition and it has successfully carved out a niche for itself in the global market.

6) Sri Lanka must then make the critical decision of deciding on what criteria do we compete. Is it on equities, bonds, hedge funds, private wealth, fund manager or an insurer/re-insurer. We must analyse our strengths and weaknesses and make this decision.

7) Whilst fashioning this basic business proposition of segmenting, targeting and postionong(the STP of marketing) the industry must involve the key policy makers intimating the key policy decisions required to make Sri Lanka a Financial Hub.

8) Whilst this deliberation takes place the industry must develop strategies to spruce up lending to 3.5 trillion rupees in the years to come that includes addressing the issue of taking off the names in the CRIB of the enterpreuners in the north-east that have been effected by the conflict.

9) A regular business health check must be carried out so that the path to being a Financial hub is monitored with the necessary changes.

10) Finally the concept of a Financial Hub must be explicitly stated in the Mahinda Chinthana –Idiri dekme so that that it will be mentioned repeatedly at forums and the ‘Task Force’ will find it easier in its deliberations.

Conclusion

Whilst we work towards making Sri Lanka the ‘Wonder of Asia’ with the already planned five hubs, there is an opportunity for a financial hub also to be included to this architecture that will fashion the future economic landscape of Sri Lanka. However, the challenge is how it is championed by the task force that, I guess Sri Lanka will have to wait and see.

The author serves the United Nations(UNOPS) as the Head of National Portfolio Development for Sri Lanka & Maldives based in Sri Lanka whilst also serving the Government of Sri Lanka on many policy making bodies in the area of Trade and Business an honorary capacity. He is a former Chairman Sri Lanka Export Development Board, National Council for Economic Development under the Presidential Secretariat and the Souvereign Rating Team of the Central Bank. In 2009 he was appointed to the President Appointed ten man committee on developing the Corporate Tea sector of Sri Lanka . He currently sits on the 7 man national task force to develop a New Industrial Strategy for the country.