



# **BANKS AND FINANCIAL INSTITUTIONS: HIBERNATION IS OVER**

**Dr Raneer Jayamaha**

## **Introduction**

Many animals collect their food or eat as much as they can in late summer and during autumn and get fat. When the winter approaches, they find dens, hideouts and sheltered spots to hibernate. The animals gradually become less and less active and tend to sleep most of the winter. Animals being an active group are waiting to come out of hibernation as early as they can, although bad winters cause them to stay longer in the hideouts. Animals hibernate only during a winter, but not from winter to winter.

This article attempts to use the hibernation habits of animals to encourage banks and financial institutions (BFIs) in Sri Lanka to come out of hibernation, as the history of a cold winter has passed by and the spring has set in, providing numerous opportunities for BFIs to participate in the development process aimed at elevating Sri Lanka to new heights. The security situation has improved vastly and the environment is free from gale force winds and atrocious weather conditions. It is now time for those who went into hibernation to step out and be partners of the development activities of the country.

Part I of the article sets out the macroeconomic environment in Asia, including Sri Lanka and the stability conditions which provide space for the BFIs to look for lucrative opportunities that are emerging in a liberated and unified Sri Lanka. Part II discusses the openings and opportunities for BFIs and the private sector operating in Sri Lanka in promoting both local and international businesses. Part III highlights the necessary preconditions and basic structures that are required by the international business community prior to making investment decisions and sets out prerequisites that the country has already established. The conclusion summarizes the findings and urges BFIs to come out of hibernation to take part in the much needed development of the country.

## **1. PART I**

### **1.1**

Sri Lanka has experienced a 26-year period of terrorism, but since mid May 2009, the country has been fully liberated. The government is now aiming to devolve power within a unitary state and has prepared an accelerated development plan based on the following principles:



- (a) **Nation Building:** promote all races in Sri Lanka to think as one nation and be involved in the development process
- (b) **Live in harmony:** develop ethnically-mixed cities and be part of Rehabilitation, Reconciliation and Reconstruction
- (c) **Grass root level involvement and organization:** economic opportunities have been identified by the people themselves
- (d) **Financial inclusion:** enhance financial inclusion through increased access to finance by formal banking channels
- (e) **Equitable growth:** reduce economic and income distribution disparities in the regions and provinces
- (f) **Tap Diaspora investment:** provide opportunities for both Sinhala and Tamil Diaspora to invest in the nation building effort.

## 1.2

During some periods of the long drawn terrorist problem, many in the private sector and BFs attempted to survive and put on hold their expansion programmes. From about the 1990s, and during the periods of intensified terrorism, if a banker or a private sector entrepreneur was confronted with the question as to why they were slow in action, the common answers were (a) *“The security situation is not conducive, it does not allow our management to decide on active participation”*; (b) *“We are waiting to see the end of the war to be active and to invite investors to Sri Lanka. As it is, investors are scared to come, but we can bring them when the war is over”*; and (c) *“True, there are many opportunities, but the security situation does not permit us to expand our businesses” “We are waiting to see the war come to an end”*.

## 1.3

Fair enough; many BFs and private sector entrepreneurs were cautious due to the numerous risks which may or may not have been realized during these uncertain periods, although a few private sector entrepreneurs moved into other countries seeking business opportunities. However, except for a few companies and BFs, the others haven't made up their minds yet or are not ready to step out of their hideouts. Some pop out their heads to gauge what the weather looks like, and then go back to their hideouts.

## 1.4 Economic Prospects in Asia

### 1.4.1

Spring has set in across wider Asia, although some of the advanced countries may require more time to recover from the disastrous impacts of the recent financial turmoil. The World economy is projected to recover earlier than expected at 2.5% in 2010 after contracting by 1.4% in 2009. Although there were serious doubts whether the Asian economies would be able to sustain their high growth momentum due to sluggish export demand associated with the world recession and the financial fiasco in the G10 countries, the Asian region is poised for growth at a



faster rate than anticipated. The four emerging Asian economies, i.e. China, Indonesia, South Korea and Singapore, have reported their 2<sup>nd</sup> quarter GDP figures indicating that they grew at an average annualized rate of more than 10%. China has reported 7.9% growth in Q 2 and is forecast to increase it to 8.5% in Q 3 of 2009. Even Japan has recorded better growth than its Western peers. On the whole, Asia is likely to grow by an average of 5-6% in 2009 while the old G7 countries are projected to suffer a contraction in growth by about 3-5% (Economist-August 15<sup>th</sup> 2009). The latest estimates indicate that the Indian economy will grow at around 5.8% in 2009 and be closer to 7-8% in 2010. The latest reports indicate that India's Q 2 growth has been 6.1%. Other small countries in the region are also on the rebound. In the next 5 years, emerging Asia as a whole is likely to grow by 7-8%, offering large investment and growth prospects both within and outside the region.

#### **1.4.2**

Asia's accelerating long term growth is underway. Following the reforms introduced after the Asian crisis, Asian markets have positive macro economic features, more flexible monetary and exchange rate policies, strong fiscal stimulus offered by governments and rising foreign exchange reserves. On the whole, Asian markets are much less vulnerable to disruption than they were a decade ago. The Asian economies are also trying to rebalance growth towards domestic sources. Simultaneously, the Asian banking system has been strengthened significantly, consolidation has taken place and the financial regulation has been conservative, making the financial system more resilient and robust.

### **1.5 Macro Picture and Growth Potentials in Sri Lanka**

#### **1.5.1**

The macro economic indicators in Sri Lanka have been improving in a significant manner in the last three months following the liberation of the country from terrorism. The country maintained an average GDP growth rate of 6.7% during 2005-2008. The growth prospects appear to be more promising in Q2 and in the 2<sup>nd</sup> half than in Q1 of 2009. However, the full impact of the peace dividend would be felt only in 2010 as nearly half of 2009 was also plagued with tumultuous and difficult conditions. The unemployment has dropped to a significantly low 5.2% from the high 9.2% in 1998 and the inflation, which rose to an untenable 28% in mid 2008 has come down to 0.9% by end August 2009. The country's foreign exchange reserves, which had dropped to a low level of US\$ 1272 mn in March 2009, have been rising at a faster rate (to US\$ 4.2bn) with the inflows to the government securities markets, other short to medium term flows and the IMF facility.

#### **1.5.2**

During 2008/09, the fiscal situation was managed in a very challenging environment, with lower than expected revenue and more than expected expenditure overruns. The revenue slippages



were largely associated with tax concessions granted on essential commodities and the drop in tariff and duty revenue due to lower imports. Import margins introduced during 2007/08 to deal with the fuel crisis has contributed to the reduction in imports. These margins have been lifted and that is expected to boost revenue from Q2 of 2009 onwards. Despite these setbacks, government revenue rose by Rs 90 bn to Rs 655 bn, recording a 16% growth in 2009. These indicate the restoration of confidence in the country's ability to steer towards achieving its macro goals.

### 1.5.3

On the monetary policy front, CBSL has created an investor conducive environment through the gradual reduction in its policy rates. The reverse repo rate was reduced from a relatively high 19% in 2008 to 11% in 2009, while the repo rate decreased to 8.5% during the same period. The average weighted deposit rates dropped by about 65 basis points while the average weighted lending rate has fallen by 415 basis points. Prime lending rates have reduced to a range of 14-18%, although this is considered to be still high by the private sector. Market yields of T bills have dropped by about 675-715 basis points during 2009.

### 1.5.4

The incoming capital inflows in the months of July and August 2009 would make the BFIs overly liquid and the banks should have no difficulties in finding loanable funds. This is a rare opportunity for BFIs. They should engage in lending to some of the neglected areas, in particular agriculture, industry and housing. The enhanced inflow of funds into the country should also result in a reduction in lending rates. The downward rigidity in lending rates of the banking sector for many years should be relaxed as the economy is poised for higher growth in the short to medium term, i.e. the balance part of 2009 and beyond. BFIs have an important role to play by providing "good credit" to those who wish to be part of the development programme.

### 1.5.5

To be in line with the emerging macro economic developments, there would be enhanced demands from private sector entrepreneurs who are planning to actively take part in the development process. BFIs should now start lending to businesses which are attempting to expand on an island-wide basis and to those who wish to start new businesses. The private sector is still not getting the required amount of funds from banks as the latter were extra cautious in lending to businesses in the wake of the prevailing security situation until May 2009 and tight monetary policy. BFIs should now give priority to further reducing lending rates where possible, as cost of funds to entrepreneurs and transaction costs appear to be still high compared with most of the Asian countries. It is also interesting to refer to the theoretical perception of ".....what makes a more efficient financial system is not just that it allows to achieve greater production and economic growth, but that the rest of the economy benefits from it. The more the financial transactions cost, the higher the hurdle for making economic decisions as such decisions are



usually made after weighing costs and benefits” (Benjamin Friedman, Professor of Economics, Harvard University). So far nobody has made an assessment to see whether Sri Lanka’s BFIs are actually delivering to the economy and what it costs to do that.

## **2. PART II**

### **2.1 Domestic Investment/Promotional Opportunities**

#### **2.1.1**

In addition to the traditional methods of providing loans and advances backed by collateral, BFIs are now in a position to venture out to new types of financing methods, especially in the context of interest shown by foreign investors in infrastructure projects in Sri Lanka.

#### **2.1.2 Business Ventures and Type of Financing**

- Public/private partnerships
- Joint ventures (domestic)
- BOI approved ventures
- BOO/BOT schemes
  - Infrastructure (water supply, power generation, healthcare development, port development, tourism development)
  - Partnership in specific projects in the newly liberated areas
    - equity funds
    - working capital
    - term loans to SMEs/micro enterprises
- Partnerships with external funding agencies, who wish to secure equity participation, such as international/regional Exim bank, development banks, and international agencies such as IFC, ADB etc.
- Participation in and promotion of foreign investment opportunities through
  - Joint ventures (foreign)
  - Participation with foreign commercial and investment banks
  - Designing financial packages to:
    - Promote regional and institutional investors
    - Attempt foreign investors to be joint partners
    - Provide working capital and equity capital, if needed
    - Promote debt issues by government
  - Active participation in attracting NRFC, RFC and other foreign currency accounts
  - Assist local enterprises to raise equity capital in international stock exchanges
  - Facilitate foreign/commercial bank borrowings from capital markets through syndicated/club loans
  - Attract oil industry related financiers for Mannar Basin oil exploration activities



## 2.2 Regionally Centered Sri Lanka's Development Programmes

### 2.2.1

Domestically, there are many opportunities to participate in the accelerated development plan of the Government. BFIs are expected to be involved in the on-going activities/ projects through lending to the identified sectors/projects included in the following regional development plans:

- (a) **East Reawakening Programme** (*Nagenahira Navodaya*) which requires infrastructure funding, promotion of small scale economic activities, fisheries development, East coast tourism and beach development, port and airport related services.
- (b) **North Reawakening Programme** (*Uthuru Wasanthaya*). The North has specific projects for Jaffna, Mannar and Vavuniya. The feasibility of some of the projects submitted to the Divisional Secretariat offices in each of the regions or provinces required funding. Killinochchi and Mulativu districts will soon return to normalcy and the private sector and banks need to make plans to provide services.
- (c) **The Southern Development Plan (Dakshina Lanka Programme)**, centered around the Hambantota area, includes key projects such as port services, the proposed airport services, highways & road development and small township building.
- (d) **Oil exploration activities** have begun in the Mannar basin and it is expected to commence production by 2012. Oil exploration would require a number of ancillary financial services, not only within, but also outside the country. Sri Lanka's BFIs should make inroads to provide banking facilities to oil exploration areas and link up with oil producing firms to enhance financial services.

### 2.2.2

Under the external aid programme committed for 2009 - 2010 both multilateral (ADB, WB, EIB, UNICEF and others) and bi-lateral donors continue to assist specific projects/schemes. As reported in the Annual Report of 2008 by the Ministry of Finance, multilateral and bilateral donors who have committed to assist Sri Lanka's development programme upto US\$ 4156 mn and the projects to which they wish to provide funding are listed in Annex 1. The sector-wise breakup of the programme is shown in Annex 2. BFIs have an important role to play in providing local rupee components to the respective investors and their counterparts involved in these projects.



## **2.3 Business Related Financial Services**

### **2.3.1**

BFI's can also provide service-oriented banking to promote the establishment of International Banking Companies (IBCs) in the areas in which new ports and airports are likely to come up, such as Hambantota, Trincomalee and Jaffna. Many of the IBCs, which are labeled as offshore banking units, are looking for political, macro economic and financial system stability. Sri Lanka now enjoys stability in all three areas and that would provide impetus for domestic BFI's as well as foreign institutions to establish businesses. Sri Lanka is also poised to become a maritime hub in Asia from which tourism and banking services can benefit. Banks should look for service-oriented operations in this area of activity. The Government is planning to establish two new economic zones in Trincomalee and Kilinochchi. Banks would have many opportunities in promoting businesses and even taking equity participation in the firms to be established in the proposed economic zones.

## **2.4 IT Related Financial Services**

### **2.4.1**

Among the many opportunities which BFI's can take up, making Colombo a feeder office for financial services or a back office would be a short-term possibility. Colombo can provide sophisticated financial services on documentation, maintaining back offices and transmitting speedily the trade and settlements to other countries. The private sector as well as the BFI's should make use of the opportunities either as joint venture establishments with foreign investors or as a consortium of local investors.

### **2.4.2**

There is also an opportunity to set up an international financial academy in Colombo with the help of the Central Bank and make Colombo a resource centre. The possibility of expanding the present Institute of Bankers or the Centre for Banking Studies of the Central Bank of Sri Lanka, both of which have many affiliations to foreign universities and Business Schools may be explored rather than duplicating the institutional structures. What is required is an effective coordination and liaison between and among these institutions and forming a financial academy that can attract international professional students as well as banking, IT service professionals for short-term training.

### **2.4.3**

Sri Lanka's electronic payment clearing and settlement service is on par or above the standards set by the international organizations and Sri Lanka is well placed in the ranking. Having performed exceptionally well during the last 2-3 years, LankaClear (Pvt) Ltd (LCPL) has made significant



strides in the retail payment services sector in Sri Lanka. LCPL is run jointly by CBSL and the commercial banks operating in Sri Lanka. It has been able to put people, processes and technology together in an impressive manner. In addition to the faster clearing services offered through the cheque imaging process, LCPL is the first clearing agency in the region to implement T+1 clearing using the cheque imaging and truncation system (CIT). Currently, LCPL is focusing on two national scale projects which would further improve the retail payment industry, i.e. the common payment switch (CPS) and the provision of financial sector digital certificates through Lankasign. When fully implemented, the CPS will enable real time realization of payments throughout the day via a number of access points, such as internet banking, ATMs, mobile phones, point of sale (POS) systems and traditional bank counters. The security of the CPS is ensured through digital signing and encryption. Most emerging economies have been keen adopters of debit cards and significant potential exists to convert usage from the ATM to POS to enhance revenues. When phase II of Lankasign is completed, all financial institutions in Sri Lanka will be able to procure digital certificates at a competitive cost compared to what is currently being paid to foreign vendors.

#### **2.4.4**

LCPL is in a position to provide clearing and common payment switch services to neighbouring countries such as Maldives, Nepal, Bhutan and Bangladesh. It can also provide gateway services to these countries to effect speedy and risk-free on-line clearing services. Bank shareholders of LCPL need to initiate action in this regard.

#### **2.4.5**

The LFSB (Lanka Financial Service Bureau), which provides a SWIFT gateway to BFIs, is capable of providing back up services and maintaining disaster recovery sites for regional banks and investors and also provide SWIFT connectivity services to the region. The standards adopted by LFSB are on par with international standards and LFSB need to market its services and prepare the groundwork for regional integration. LFSB is also operated by banks themselves, and with a little effort, it should be able to penetrate into new ventures.

#### **2.4.6**

There are many new business opportunities emerging in the Asian region as well. India's middle class is expanding rapidly. That bodes well for the country's securities and fund transfer industries. Sri Lanka, having close business ties with India should try to be involved in that expansion effort and grab business, where possible. The Colombo Stock Market has a role to play for tapping opportunities in India's stock market operations on mutual agreements drawn to benefit both countries. The initial efforts made by the SEC to coordinate with the Mumbai stock exchange should be pursued on mutually beneficial terms. There is also unique opportunity for Indian origin banks operating in Sri Lanka to promote business opportunities between the two exchanges.





### 3. PART III

#### 3.1 Pre-conditions for International Business Centres (IBCs)

##### 3.1.1

**Effective Bank Supervision and Regulation:** In general, the banking sector in Sri Lanka offers stability through prudent risk management, reliable infrastructure, robust capital structure and a high capital adequacy ratio. BFIs in SL are blessed with a widely spread customer base and robust shareholder structure with sizeable investments by individual shareholders who have been enjoying continuous profits from banking operations. There are established international standards in place concerning the regulation and supervision of banking. They include adopting the Core Principles (25) of effective banking supervision produced by the BIS-Basel Committee which cover capital adequacy, integrated risk management adequate provisioning for non performing loans, financial reporting according to accepted international standards etc.

##### 3.1.2

Sri Lanka's off-site and on-site supervisory approach based on a risk-focused formula has been well structured. All banks are required to maintain documents and submit on a regular basis up-to-date business plans and compliance reports to the Bank Supervision Department of the Central Bank. A thorough on-site examination is conducted on each operating bank once in two years and a management report is sent, highlighting the deficiencies, to the management. Sri Lanka's regulatory and supervisory framework is well within the Core Principles and has been ranked as a well-knit regulatory structure by international standards. IBCs which are keen to engage in businesses in economic zones should be satisfied with the prevailing legal and regulatory framework in Sri Lanka. CBSL has also started initiatives to enforce consolidated supervision for which two committees have been set up: a policy level committee under the chairmanship of the Governor (Inter-Regulatory Institutions Committee), which consists of CEOs and a Working Group of operational officers of all regulatory institutions in Sri Lanka.

#### 3.2 Securities Regulation

##### 3.2.1

Similarly, Sri Lanka's legal and regulatory structure covering securities and investments transactions are also in line with the IOSCO guidelines – objectives and principles of securities regulation which sets out a series of principles covering:

- The responsibilities of the regulator; adequate powers, proper resources and the capacity for the regulator to perform its functions and exercise its powers;
- The regulator to adopt clear and consistent regulatory process and have comprehensive inspection, investigation and surveillance powers backed by comprehensive enforcement



powers and assurance by regulatory system that it has effective and credible inspection, investigation, surveillance and enforcement powers

- The Securities and Exchange Commission (SEC) Act in Sri Lanka is being amended to comply with IOSCO principles, in that it is aimed to protect the investor interest in capital markets.

### **3.3 Stock Market**

#### **3.3.1**

CSE conducts its business according to international norms and is regulated by the SEC. Self-regulation principles, issue principles, market intermediaries principles and secondary market principles are the most applicable regulations for stock markets which are adhered to by the CSE. Colombo has been one of the best performing stock markets even in difficult times in the past. Its modern trading floors and the CDS system are attractions to many investors. More recently, Sri Lanka's CSE launched the country's first close-end mutual fund targeting to raise Rs 1 bn mainly from new investors who will be interested in entering the stock market. The Fund is planning to invest in shares and fixed income sectors. In this close-end fund, money is locked up for 10 years until it is dissolved by investors or by selling shares in the stock market.

#### **3.3.2**

IBCs generally look for independent and accountable legal and regulatory frameworks to generate confidence and to ensure that all market participants will be treated objectively and fairly and that rules and regulations are applicable uniformly in such a way as to protect investors and promote orderly market activities.

### **3.4 Insurance Regulation**

#### **3.4.1**

In line with principles and guidelines set out by the International Association of Insurance Supervisors (IAIS), the Insurance Act of Sri Lanka, which regulates the insurance business, has been designed and is being amended to enhance regulatory powers. The principles and standards are intended to represent a target for supervisors to work towards and to implement regulation in a flexible manner. As the insurance sector in Sri Lanka is poised for steady growth, it is timely for the regulatory authority to facilitate the entry of global insurers, but enforce regulation more forcefully to ensure that there is good order in the insurance industry.



### **3.5 Formation of International Trusts**

#### **3.5.1**

IBCs also look for trusts which are commonly used in offshore structures. They typically involve settlers, trustees and beneficiaries and often involve protectors, enforcers and custodians. The trustees of a trust hold a legal title to the trust property. Trusts should have the ability of law enforcement authorities to identify the settler, beneficiaries, protectors and custodians and to make available financial information relevant to the activities of trust to law and regulatory authorities. If an IBC including international business trusts were to be formed, the government would take necessary steps to pass relevant laws which will provide the platform that is required for effective business by IBCs.

### **3.6 Regulation on Money Laundering and Terrorist Financing**

#### **3.6.1**

A number of international standards are in place setting legislative and practical measures that should be taken to combat money laundering. SL has passed three specific laws for money laundering and countering terrorism, i.e. the Prevention of Money Laundering Act No.5 of 2006, Convention on Suppression of Terrorist Financing Act No.25 of 2005 and Financial Transactions Reporting Act No.6 of 2006. These are the key legislative enactments, which are monitored by the Financial Intelligence Unit (FIU) set up in the Central Bank. This legislation is in full compliance with international standards and that has been proven by the recent membership afforded by the Egmont Group to Sri Lanka's FIU.

### **3.7 Colombo to become an International Financial Services Centre**

#### **3.7.1**

For a long time, financial sector experts, professionals, bankers and others were of the view that Sri Lanka should become a regional financial hub in South Asia. The Financial Sector Reform Plan prepared by the CBSL after many years of consultation with all stakeholders in the financial sector, has prepared a vision for Sri Lanka, i.e. "to become a vibrant, sound and healthy financial sector in South Asia that links up with regional and global markets, while promoting Sri Lanka's growth potentials through access to finance". The vision was designed to be achieved in two phases. In the short run (2009-2011), it was intended to reposition the financial services industry by increasing access to finance by all segments of the population in keeping with the government's development policy framework, while the long term (2015) vision was to move towards a regional financial centre through improved financial services.



### 3.7.2

Shanghai is one of the several important financial hubs in Asia. Nevertheless, like in the US or Europe, it is not the only Asian region financial hub. Tokyo, Hong Kong and Singapore are the other important financial service centres, which recorded high performance in the last few years. Although Sri Lanka will take a long time to reach their level, if the process is started initially, Sri Lanka can become a feeder station for the developed financial hubs in the region.

### 3.7.3

Painted against a canvas of crisis, challenge and uncertainty, Sri Lanka's macro economy, as well as its financial sector, has responded to the various pressures from the domestic and the global economy, and has managed to survive well. Sri Lanka's financial system has been relatively stable and resilient to external and internal shocks. The financial sector has a well-established legal and regulatory framework covering both financial and capital markets. A cross section of internationally reputed BFs and well run local BFs are key players in the financial landscape. With the initiatives of the CBSL, a robust and well-established payments and clearing and settlement infrastructure has been put in place, which compares well with international standards. Sri Lanka's financial services industry is also blessed with a large number of skilled and professional bankers and financial intermediaries. Similarly, there are enough skills in Sri Lanka's banking and financial services industry to promote new business and innovative financial services. BFs need to invite reputed banks for investment banking, asset management, corporate banking, brokerage, financial services marketing and also for private retail banking. BFs should also explore the possibility of providing ancillary services to these banking institutions and improve their fee-based income.

## 3.8 Go the Extra Mile

### 3.8.1

What is required on the part of the BFs and the private sector is to improve the efficiency and service excellence. BFs in Sri Lanka should endeavour to become regional leaders in financial services as the success of banks is measured by the clients' trust in the way the banks conduct business. Banks are expected to live up to their reputation by constantly developing innovative products and improving services to cater to client needs. While being cautious on the risks, BFs in Sri Lanka should be innovative to make use of the opportunities, which they have now got after waiting for nearly three decades. BFs and the private sector should put together their expert minds, use innovative tools and strive to provide service-oriented activities and ensure delivery of results and not just promises.

### 3.8.2

If BFs in Sri Lanka were to proceed on a phased development path uplifting and upgrading the financial services in the region, the plan should be implemented in a phased manner. In



Phase I, it would be necessary to build institutional capacity for which the CBSL and the government have already provided the necessary infrastructure to a large extent. The CBSL has in particular maintained the wider financial system stability through the development of an efficient financial infrastructure, together with evolving a robust prudential regulatory framework. In the first phase, therefore, the government and CBSL may have to further deregulate and further improve the financial infrastructure development where necessary, while in the second phase, BFIs should increase the pace of regional and international integration. BFIs need to establish relationships with the other regional financial centres and cultivate business relationships in stage one. As a prelude, CBSL has been instrumental in building up domestic institutional capabilities, while BFIs themselves should strive to increase their performance. The capacity building over the years has also been successful in Sri Lanka although only a few banks have ventured out to reap benefits from new business opportunities. BFIs should engage in a promotional drive to attract new international business partners.

### **3.8.3**

As was the case in the countries, which have established successful IBCs, e.g. Singapore, Mauritius, Eastern Caribbean countries, BFIs in Sri Lanka need to take the lead in establishing IBCs with foreign investor assistance in their countries and explore the opportunity of making Sri Lanka a financial hub. This is a topic which has been discussed for a long time, but the actual implementation was postponed due to numerous reasons. Now that the war is over and the whole country is liberated, BFIs should be innovative, aggressive and committed to take necessary steps to make Sri Lanka an international financial centre and not miss opportunities.

## **4. Conclusion**

### **4.1**

It is time for SL's BFIs to rethink and re-strategize their plans and make necessary adjustments to operate in the new environment. China and India appear to be providing a conducive environment for the Asian region's financial services industry. Sri Lanka's BFIs have an easy route to both these countries and it is time to explore opportunities. If the same analogy of animal hibernation were to be repeated, animals hibernate only in winter and not from one winter to another.

### **4.2**

Governments can only provide necessary preconditions and set the stage for a rebound. BFIs need to give up their lackadaisical attitudes and move forward as many BFIs in other countries have promoted their financial centres to advanced levels. At a time when BFIs the world over are trying to get out of the woods, Sri Lanka's BFIs should find shorter routes to get out of their hideouts rather than looking out for hidden dangers as they saw in the past.



Annex 1

**Project Pipeline 2009 – 2010 (US\$ Mn)**

Sector	Donor	Project Name	Grant	Loan	Year	
					2009	2010
Water & Sanitation	Japan	Water Sector Development Project – Phase IV		100.0		100.0
	ADB	Dry zone Urban Water & Sanitation Project	25.2	59.8	85.0	
	ADB	Jaffna Water Supply Project		80.0	80.0	
	ADB	Greater Colombo Waste Water Management		100.0	100.0	
	Hungary	Labugama Kalatuwawa Water Supply		50.0	50.0	
	Canada	Dankotuwa Water Supply Project		40.0	40.0	
	Belgium	Kollanna Balangoda Water Supply		18.8		18.8
	Belgium	Rehabilitation of Sewers in Northern and Southern Catchment of Colombo		70.0	70.0	
	Spain	Ratnapura Water Supply		31.0	31.0	
	Korea	Ruhunupura Water Supply		76.3	76.3	
		<b>Sub Total</b>	<b>25.2</b>	<b>625.9</b>	<b>532.3</b>	<b>118.8</b>
Ports & Aviation	Japan	Development of Bandaranaike International Airport – Phase II		250.0	150.0	100.0
	Belgium	Desalination Plant for Hambantota Port		19.2		19.2
	China	Hambantota Port Bunkering and Oil Tank Farm Facility		75.0	75.0	
		<b>Sub Total</b>		<b>344.2</b>	<b>225.0</b>	<b>119.2</b>
Roads, Highways & Bridges	Japan	Greater Colombo Urban Transport Project – Phase II (Construction of Southern Section of Outer Circular Highway (OCH) from Kaduwela to Kadwatha Flyovers in Colombo City)		140.0		140.0
	Japan	Rehabilitation of Five Bridges in Eastern Province	7.0			7.0
	Japan	Provincial Road Development Project		100.0	100.0	
	ADB	Southern Transport Development Project – Supplementary (Non Sovereign)		150.0	150.0	



Sector	Donor	Project Name	Grant	Loan	Year	
					2009	2010
	ADB	Road Network (Provincial Roads)		100.0		100.0
	ADB	Eastern and North Central Provincial Roads Projects		320.0	70.0	250.0
	World Bank	Provincial Roads		105.0		105.0
	World Bank	National Roads		115.0		115.0
	World Bank	National & Provincial Roads		115.0		115.0
	China	Colombo Katunayake Expressway		248.0	248.0	
		Sub Total	7.0	1393.0	568.0	832.0
Power & Energy	Iran	Oil Refinery Project (Govt. Guarantee)		800.0	800.0	
	Germany	Rehabilitation of Old Laxapana		33.0	33.0	
	ADB	Clean Energy and Access Improvement Project	4.2	160.0	164.2	
	Japan	Power Sector Development Project – Upper Kotmale Hydro Power Project (Balance Financing)		400.0		400.0
	ADB	Power Support II		100.0		100.0
		Sub Total	4.2	1493.0	997.2	500.0
Health	Japan	Improvement of Central Functions of Jaffna Teaching Hospital	16.0			16.0
	Japan	National Workers' Hospital a& Nurses Training School	40.0			40.0
	Japan	Hospital		70.0	70.0	
	Spain	Improvement to Karapitiya Hospital & Other Healthcare Institutions		16.0	16.0	
	Netherlands	Hambantota Hospital		45.7		45.7
	Netherlands	Nuwara Eliya Hospital		45.7		45.7
	Belgium	Medical Waster Treatment Project		11.5		11.5
	Austria	Improvement of Beliatte Hospital		15.0		15.0
	World Bank	Health Sector Development (Additional Financing)		15.0	15.0	
	Austria	Air Force Hospital		38.0	38.0	
	France	Intravenous Solution Plants		7.0	7.0	
	France	Operating Theaters at Oxygen Concentrators for selected Hospitals		5.0	5.0	
		Sub Total	56.0	268.9	151.0	173.9



Sector	Donor	Project Name	Grant	Loan	Year	
					2009	2010
Agriculture Irrigation & Environment	Japan	Moragahakanda & Kaluganga Development Project		250.0		250.0
	Kuwait	Moragahakanda & Kaluganga Development Project		37.0	37.0	
	OPEC	Moragahakanda & Kaluganga Development Project		20.5		20.5
	Saudi Fund	Moragahakanda & Kaluganga Development Project		46.0		46.0
	IFAD	Agri-business Project		25.0	25.0	
	World Bank	Environment Resource Management		20.0		20.0
	World Bank	Agriculture Research and Productivity Improvement		35.0	35.0	
		Sub Total	0.0	433.5	97.0	336.5
Finance	ADB	Fiscal Management Reform II		40.0	40.0	
		Sub Total	0.0	40.0	40.0	0.0
Education & Vocational Training	World Bank	Higher Education		40.0		40.0
	Norway	Puttlam Tec. College Development Project		2.8	2.8	
		Sub Total		42.8	2.8	40.0
Railway	Belgium	Railway Bridge Rehabilitation		12.8	12.8	
	Austria	Rehabilitation of Railway Track Valachchanai - Batticaloa	6.5	19.5	26.0	
		Sub Total	6.5	32.3	38.8	0.0
Other	Netherlands	Disaster Response Network II		32.0	32.0	
	World Bank	North and East Local Service Improvement		50.0		50.0
	World Bank	Private Sector Development in Tourism Resources		15.0	15.0	
	World Bank	Gama Neguma		75.0	75.0	
	Japan	Eastern Infrastructure Development Project		75.0	75.0	
		Sub Total	0.0	247.0	197.0	50.0
			98.9	4920.6	2849.1	2170.4

**Source: Ministry of Finance & Planning (Annual Report)**





## Annex 2

### External Borrowing Programme Sectorwise Basis (2009 – 2010)

Sector	Amount US\$
Water	494.0
Ports	441.0
Roads	899.6
Power	1,184.0
Health	106.0
Agri	212.0
Finance	40.0
Education	42.8
Railway	327.8
Other	409.0
<b>Total</b>	<b>4,156.2</b>

*Source: Ministry of Finance and Planning*