



## **Pathfinder Beyond the Box**

# **Connecting Micro & SME Sectors To Contribute towards Economic Prosperity In a Digital Savvy, Post—COVID-19 Sri Lanka**

BY PATHFINDER FOUNDATION IN COLLABORATION WITH VISA

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## 1. NARRATIVE

This note was prepared by Rajendra Theagarajah (Chairman, Ceylon Chamber of Commerce 2017-19). Mr Theagarajah was engaged by the Pathfinder Foundation to lead a small work group to examine the implications of April 2019 terror attacks and subsequent emergence of the Covid-19 Pandemic on the Micro and Small & Medium Enterprise segment (SME) and tourism/ inbound Leisure sector related supply chains.

The study also took the opportunity to examine the current state of the ‘start up’ eco system, specifically the Fin-tec and Agri-tec players and the opportunities for this sector to energise the MSME/SME segment in contributing meaningfully towards the economic revival of Sri Lanka. Knowledgeable and experienced persons ranging from policy makers, private sector and business chambers were invited as panellists at the three workshops moderated by Mr Theagarajah. Visa, the global leader in digital payments, joined Pathfinder as a strategic partner in bringing local and global insights relating to the role of ‘digitalisation’ in the above conversation.

The principal contributors and other members of this work group are listed in Annex 1.

### *Global Impact of the Covid 19 Pandemic and Policy Support towards Vaccination*

A review of global Covid case numbers as of May 2021 reveal a sharp rise again. Such a rise in covid cases may be viewed as an unfortunate side effect of returning to ‘near normal’ levels of activity in parts of the world. Of course, compared to the peak earlier in 2021, the rise in case numbers look less marked when weighted by GDP rather than size of the population. This leads to the belief that, while this third wave is clearly a significant public health concern, it is economically less significant at a global level (Oxford Economics).

Vaccination has been viewed as key to a safe and more permanent shift towards near normal conditions. However, evidence from economies that have rolled out widespread vaccination programs also point towards the view that high vaccination rates may not be the sole factor.

Of the 20 economies that have implemented swift rollouts, nine are small states with inadequate data. Of the remaining 11, only five have shown lower Covid cases at present compared to when they began vaccinations.

Lockdown stringency scores suggest that ‘over enthusiasm’ to lift restrictions has not necessarily been the reason for the worsening health situation in some of these economies. Furthermore, the presence of new variants in the US and UK which have recorded high falls in deaths and cases, suggest that the spread of such variants is not solely to be blamed.

In April 2020, global economic growth was projected to contract by 3.3% which was much worse than the 2008-09 financial crisis (IMF-World Economic Outlook ‘The Great Lockdown’). Assuming that the Pandemic would fade away during the second half of 2020, global growth was projected to grow by 5.8% in 2021. A re-visit of the situation in July 2021 suggests global growth is projected at 6.2% in 2021 moderating at 4.6% in 2022. These projections are based on additional fiscal support in a few larger economies, the anticipated vaccine powered recovery in the second half of 2021 and continued adaptation of economic activity to subdued mobility both domestically within economies as well as across borders. The spread of the Delta coronavirus variant may however complicate the return towards normalcy.

Having experienced its worst ever recession in 2020 (which translated into a contraction of 3.6% in GDP), Sri Lanka's economy is expected to recover with a 3.4% growth in 2021 (World Bank, Sri Lanka Development Update April 2021). The country has been hit with an unprecedented economic downturn due to the pandemic coupled with slower global recovery, continued trade restrictions and a high debt burden.

Credit must be given to the Government of Sri Lanka for acting decisively with steps such as cash transfers, postponement of tax payments, and a Central Bank administered debt moratorium scheme in consultation with banks would certainly have helped ease the adverse impact of Covid-19 on businesses and livelihoods. However, lower revenue and increased expenditure contributed towards a worsening fiscal situation coupled with a ballooning of public and public guaranteed debt which was estimated to have risen to 110% of GDP. Reserves have plummeted to a 11-year low in February 2021 and the US dollar exchange rate crossed 200 but today it is believed to be administratively managed at a rate of around 200.

The country appeared to have arrested the number of Covid cases in 2020 until Q1 of 2021 with regular internal lock downs/ limiting mobility while also closing its borders to tourists. However, the reopening of borders in 2021 coupled with unfortunate gathering of crowds during the April Sinhala/ Tamil new year holiday appear to have contributed to the sharp rise in Covid cases also resulting in a very sharp increase in related deaths in May 2021. The policy of implementing the 21-day lockdown in May 2021 while systematically increasing the availability of vaccines (including Sputnik and Sinopharm) should show an improved situation in the 2<sup>nd</sup> half of 2021.

### ***Way Forward for Economic Revival - Role of Digitalisation***

The Pathfinder Foundation submitted a comprehensive list of recommendations for consideration by the Government of Sri Lanka in July of 2020, which was captured under "Beyond the Box: A new Economic Vision for Post Covid-19 Sri Lanka.

This document focuses on identifying essential elements and "pain points" for Micro/ SME enterprises, new generation of emerging Fin-Tec and Agri Tec entrepreneurs and businesses involved in tourism/ inbound travel related ventures and suggest ways and means as to how "digitalisation" can contribute towards energising these businesses and fostering Sri Lanka's future economic revival. The report also takes cognizance of some of the macro strategic recommendations made in the Foundation's July 2020 submission.

## 2. RECOMMENDATIONS\*

### *Short term Operational Interventions (next 6 Months)*

1. The pandemic has certainly given rise to usage of online/ e-commerce for essentials especially in food, groceries, healthcare and FMCG sectors. However, there are further interventions needed in (a) national public transit (b) tourism hotspots and (c) Agri related supply chains to name a few, where opportunities are available to deploy ‘contactless payments’ and establishment of virtual shopfronts with good customer / user experience. This will not only contribute towards enhanced personal safety (from handling cash/ cheques/plastic), improved productivity and enhanced consumer choice but also in tracking of relevant information on customer behaviour which can drive future business development.
  - 1.1 It is observed that the country has made progress in launching a National Transit Card. However, it is noted that the solution is a ‘closed loop’ one. It is recommended that this solution be opened to all card operators regardless of whether local/ foreign, debit or credit, by enabling all the touch points to accept such payments agnostic of the issuer. As a test, we suggest that a tripartite project between National Transit Commission, with service providers to identify and select one urban and one provincial bus route to monitor the impact of the ‘open loop’ solution over a 6-month period. The outcome can be a foundation to implement the solution across the country.
  - 1.2 Inbound tourism is acknowledged as intrinsically critical to the country’s economic growth. Hence, the gradual opening of ‘bio tourism bubbles’ can be complimented by Sri Lanka Tourism being positioned to promote ‘urban tourism’ as well as resort focused tourism using deep data driven insights of tourist movement, spend patterns, consumer shopping, and food and leisure/ entertainment preferences. Such insights will be more accessible to data repositories such as card operators. As an experiment, Sri Lanka Tourism should work with card networks, analysing past data over an agreed period for tourists/visitors from one specified ‘corridor or country’ and then tailor offers to attract future travellers over a further period of time and assess impact or outcome (i.e., Visa did a similar exercise with Russian Banks and shopping outlets in the Maldives having analysed past spend patterns of Russian tourists in Maldives).
2. The state minister responsible for implementation of Entrepreneur Development and Digitalisation must take control of rolling out a powerful ICT infrastructure intervention, such as ‘India-stack’ which covered the 3 pillars of (a) digital ID (b) Unified Payment Interface (UPI) and (c) paperless transactions.
3. A coordinated publicity campaign to improve awareness of SMEs regarding the power of data-driven decisions could be launched by the Ministry of SME Development. Co-opting private sector agencies such as SLAASCOM and CCC Start- up Business council, together with the Lanka Agripreneurs Forum with the objective of showcasing selected success stories where Fin-tec start-ups have added value to conventional agri

farms/ businesses. (i.e., Senzmate/ Honest Greens using IOT for Precision Agriculture). A successful ‘Grass root’ centric organisation such as SANASA could come in as ‘training partner’.

### ***Medium/ Long Term Policy Interventions***

4. It is recognised that the cost of increased automation may deter adoption in Sri Lankan agriculture where most of the cultivation is undertaken by small scale farmers within a ‘fragmented’ land ownership ecosystem. A clear way forward could be policy encouragement to set up a portfolio of AGRIZONES (similar to Industrial Zones/ Techno parks) and encourage small scale farmers to take up plots of land on a long lease with benefits of common AGRITEC deployment in areas such as drones for spraying of insecticides and pesticides, precision infusion of nutrients and connecting AGRITEC essentially at Agri producer inputs level. The role of the government can be limited to policy formulation and support towards common infrastructure while the private sector should be invited to own/operate the zones as viable commercial enterprises linking small scale Micro/ SMEs into a productive supply chain.
5. This report’s Working Group participants on MSME/SME included Peoples Bank (Micro/ SME centric Financing), the EDB as a ‘market access partner’ and a major local corporate export house (as supply chain partner). They recommended that a consortium of private and public sector entities should identify a modest size village with a high percentage of youth with the objective of developing a ‘one village one product’ strategy. Additionally, invite and link one or more Fintec/ Agri tec start-ups with an export house to identify components where smart solutions can be deployed in the supply chain.
6. EDB has a vast information base on products, markets and trends in demand-high, value added products including agri products such as ‘immunity boosting’ agri based products. This type of an information sharing mechanism with Agrizone operators can facilitate the shift away from mere commoditization of crops towards ‘what best to GROW’ and open access to new supply chains/ investors. Card payment operators such as Visa are (already deployed elsewhere in Asia) in solutions such as ‘virtual stores’. The government can test this concept by sponsoring one AGRIZONE, inviting an Anchor investor/operator (similar to Brandix, Vishakhapatnam in India), together with EDB, a major payments technology partner such as Visa and a major state or private sector commercial bank with a passion and understanding of SMEs, and a ‘grass root’ centric organisation such as SANASA to form a consortium. Fin-tec players testing and deploying new technologies in support of industrial automation, minimisation of agri waste, promotion of precision agriculture tec can be invited to offer solutions to zone participants as a ‘service on a subscription’ basis. The impact of this project (Medium/long term) should be monitored by a related governmental agency with recommendations to replicate success across the country over a period of time.

**\*The above recommendations are extracted from the Working Group Report that follows.**

### 3. WORKING GROUP REPORT

#### 3.1 *General comments*

SMEs account for almost 90% of businesses in Asia and employ 50% of the workforce.

At the same time, technology has gradually embraced SMEs across Asia with almost 44% of all payments flowing through SMEs as ‘Contactless’ – a promising trend for a post pandemic new norm in doing business.

In Sri Lanka, approximately 30% of the population is engaged in Agriculture which contributes approx. 7.4% to GDP.

The global trend is in attracting an increased demand for “immunity boosting” agri products which are often high value added in nature.

There is global realisation that any business which does not have an e-commerce or digital focus will run the risk of facing a natural death.

#### 3.2 *Common Pain Points faced by Lankan SMEs*

- Inconsistency in tariff and subsidy policies for protection of local industries
- Lack of good basic financial management skills.
- Lack of entrepreneurial skills (often following a ‘herd’ mentality)
- Growth often stifled by reluctance to conform with regulatory and taxation compliance (not seeing the bigger picture of success resulting from well governed SMEs)
- Poor knowledge regarding ‘Access to markets’ (both local and overseas supply chains)
- Lack of knowledge regarding sources and preparation to access grant funding
- Besides probably Information & Communication Technology (ICT), the inability of other product(s)/ businesses to be scalable beyond national shores and compete on own merits
- Very little understanding of the benefit of ‘data driven’ decision making to improve business productivity and/or increased business turnover/ customer base
- High cost of conventional channels in receiving and settling payments relating to exports and/or import financing
- Lack of knowledge and/or access to affordable insurance protection and finance.
- Vulnerable to vagaries of lockdowns and mobility restrictions due to prevailing Pandemic

### 3.3 *Short term Operational Interventions Recommended (next 6 Months)*

1. The pandemic has certainly given rise to usage of online/ e-commerce for essentials especially in food, groceries, healthcare and FMCG sectors. However, there are further interventions needed in (a) national public transit (b) tourism hotspots and (c) Agri related supply chains to name a few, where opportunities are available to deploy ‘contactless payments’ and establishment of virtual shopfronts with good customer / user experience. This will not only contribute towards enhanced personal safety (from handling cash/ cheques/plastic), improved productivity and enhanced consumer choice but also in tracking of relevant information on customer behaviour which can drive future business development.
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2. The state minister responsible for implementation of Entrepreneur Development and Digitalisation must take control of rolling out a powerful ICT infrastructure intervention, such as ‘India-stack’ which covered the 3 pillars of (a) digital ID (b) Unified Payment Interface (UPI) and (c) paperless transactions.
3. A coordinated publicity campaign to improve awareness of SMEs regarding the power of data-driven decisions could be launched by the Ministry of SME Development. Co-opting private sector agencies such as SLAASCOM and CCC Start-up Business council, together with the Lanka Agripreneurs Forum with the objective of showcasing selected success stories where Fin-tec start-ups have added value to conventional agri farms/ businesses. (i.e., Senzmate/ Honest Greens using IOT for Precision Agriculture). A successful grassroots centric organisation such as SANASA could come in as ‘training partner’.



### **3.4 Medium/ Long Term Policy Interventions Recommended**

4. It is recognised that the cost of increased automation may deter adoption in Sri Lankan agriculture where most of the cultivation is undertaken by small scale farmers within a ‘fragmented’ land ownership ecosystem. A clear way forward could be policy encouragement to set up a portfolio of AGRIZONES (similar to Industrial Zones/ Techno parks) and encourage small scale farmers to take up plots of land on a long lease with benefits of common AGRITEC deployment in areas such as drones for spraying of insecticides and pesticides, precision infusion of nutrients and connecting AGRITEC essentially at Agri producer inputs level. The role of the government can be limited to policy formulation and support towards common infrastructure while the private sector should be invited to own/operate the zones as viable commercial enterprises linking small scale Micro/ SMEs into a productive supply chain.
5. This report’s Working Group participants on MSME/SME included Peoples Bank (Micro/ SME centric Financing), the EDB as a ‘market access partner’ and a major local corporate export house (as supply chain partner). They recommended that a consortium of private and public sector entities should identify a modest size village with a high percentage of youth with the objective of developing a ‘one village one product’ strategy. Additionally, invite and link one or more Fintec/ Agri tec start-ups with the export house to identify components where smart solutions can be deployed in the supply chain.
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### **3.5 Miscellaneous outcomes from discussions involving working group members for resolving ‘pain points’ identified above**

Working Group engagement was structured in the form of three online webinar sessions, dedicated to address pain points relating to (a) Micro/ SME enterprises in general agnostic of a particular sector (b) role to date, played by Fin-tec and Agri-tech enterprises and their relevance to powering SMEs and (c) state of inbound travel operators and the tourism sector supply chain. While the report has highlighted and presented 6 specific recommendations in

pages 8 and 9 of this report, the following thoughts and suggestions also emerged from these sessions which are listed for information and consideration:

- Replace debt moratoriums with a medium/long term credit line sponsored by the government targeting Micro/ SME players in the tourism/ inbound leisure eco system
- Intensify the vaccination of frontline workers connected with tourism
- Sri Lanka Tourism and or Tourism Collective to facilitate awareness of benefits of financing tourism via private equity instead of Bank financing.
- If moratorium extension is deemed necessary, government to work with tourism industry and banks and (a) structure ‘tax breaks’ for any write off interest or capital due to the pandemic and (b) consider issuance of long-term bonds against underlying receivables of tourism related loans.
- Better use of the Tourism Development Fund by deploying part of it for (a) developing a good visitor management system (b) deployment towards enhancing the tourist/visitor experience at selected sites (c) training of tourism guides towards improved conduct and appreciation of better nature conservation (d) improved collection and dissemination of information relating to preservation and destruction of the environment.
- Most attention during the pandemic has been focused on health protocols with little attention paid towards the spending tourist him/ herself. We need to realise that after being restrained for over a year, tourists often have bigger spend wallets and geographic choices on where to go and spend.
- At the end of March 2021, Sri Lanka had barely attracted 3000 tourists while neighbouring Maldives had brought in over 100,000. There is a need to study best practices from other nations such as red, amber, green traffic light system plus preferential access for visitors with both doses of vaccines taken.
- Introduction of a robust and affordable Agri insurance scheme for SME players in agriculture
- Support EDB’s vision of developing and building ‘export ready Local SMEs’- a pilot program to be spearheaded by EDB together with a major local bank and a grass roots savvy institution such as SANASA with tri-lingual training capability to select one province and test collaboratively with a pool of SMEs identified by local chambers. Based on its success, ensure systematic rollout across the country
- Now that we have a new State Minister for Digitalisation to implement the policies framed by his Cabinet Ministry colleague, fast-tracking of few key projects in linking digitalisation with Micro/ SME revival should be on the Ministry agenda:
  - Digital identity/Biometric ID
  - Concerted effort to develop/ deploy a digital currency to minimise use of cash
  - Test the concept of a future proof smart city with the development of the new Port City. Select and appoint a strategic technical partner with proven experience of advising on other smart cities/ zones.
  - Recognising the merits and relevance of ‘cloud based’ storage/ data processing in Sri Lanka.
  - Set up a national fund in sponsoring ‘start-ups and accelerators until they reach maturity to be candidates of bank funding

### 3.6 *Key assumptions on which the recommendations in this report are based:*

- Government will continue the rollout of Vaccination program across the country not only focussing on the Western Province.
- Resumption of tourism and business sectors are two critical economic factors to balance against a total closing of borders. Future decisions taken to facilitate a smooth resumption of people's mobility would be based on a careful study of regional and global developments (backed by objective evidence of measurable Key Performance Indicators). For example, re-visitation of the 14-day quarantine policy for visitors/ inbound arrivals with proof of being fully vaccinated and a negative PCR test upon arrival.
- Government should consider appointing a single point of communication with the general public on measures taken by the state and outcomes/ key developments relating to the management of the pandemic (i.e.: in the UK, there is a regular press briefing (targeting TV, radio and social media audiences), which is attended by the Prime Minister himself accompanied by the Chief Medical Officer of the Country and the Minister responsible for the vaccination program implementation by sharing timely, relevant information to citizens so that there is no misinformation).
- Policy interventions/ legislation supporting Fin-tec/ Agri-tec should be driven top down by the government instead of waiting to be engaged 'bottoms up'.

## **ANNEX 1**

### **Contributors to Work Groups/ Panel Discussions**

**Mr Rajendra Theagarajah**, Immediate Past Chairman, Ceylon Chamber of Commerce

**Mr. Rizvi Zaheed**, Chairman, Sri Lanka Agripreneuers' Forum

**Mr Suresh De Mel**, Chairman, Export Development Board

**Ms Samadanie Kiriwandeniya**, Managing Director, Sanasa International

**Mr Shan Weerasekera**, Group Director, Capital Maharajah Group

**Mr Harsha Purasinghe**, Founder/ CEO, Microimage Group

**Mr Sujeewa Rajapaksa**, Chairman, Peoples Bank

**Mr Jeevan Gnanam**, CEO, Veracity AI (Pvt.) Limited, Co-Founder Lanka Angels Network

**Mr Ramesh Shanmuganathan**, Chief Information Officer, John Keells Holdings PLC

**Mr Victor Antonypillai**, Country Officer, International Finance Corporation – Sri Lanka & the Maldives

**Mr Dharmasri Kumaratunge**, Director, Payments & Settlements, Central Bank of Sri Lanka

**Mr Prajeeth Balasubramanium**, Chairman Start up Business Council, Ceylon Chamber of Commerce & Chairman Sri Lanka -Singapore Business Council

**Ms Shiromal Cooray**, Co-Chair, Sri Lanka Tourism Alliance

**Mr Sanath Ukwatte**, Chairman, The Hotels Association of Sri Lanka

**Mr Mahen Kariawasam**, Former Chairman Sri Lanka Inbound Tour Operators Association

**Mr Henry Fitch**, CEO, Teardrop Hotels (Pvt) Limited

**Mr Anthony Watson**, erstwhile Country Manager - Sri Lanka & Maldives, Visa

**Mr Ram Rakkappan**, Head, Government Engagement, India & South Asia, Visa

**Mr Kaustubh Pandey**, Director, Government Engagement & Public Policy, Visa India & South Asia

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