NEWS ROUND UP

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Contents

Rupee hits record low; shares fall amid foreign outflows

The rupee hit a record low on Thursday as foreign investors exited government securities after the US Federal Reserve raised interest rates for a third time this year, while shares fell in thin trade amid foreign outflows.

The rupee hit a new low of 169.40 per dollar on importer demand for the greenback and as foreign banks bought the US currency to facilitate foreign selling in government securities, but intervention by the Central Bank limited the fall, market sources said.

The rupee ended at 169.35/55 per dollar, compared with the previous close of 169.00/20. The previous record low was 169.05 per dollar hit on Wednesday.

The rupee has weakened 4.8% so far this month against the dollar after a 1.2% drop in the previous month, and has declined 10.2% so far this year.

The Colombo stock index fell 0.31% to 5,869.31. The index hit its lowest close since 18 December 2013 on Tuesday.

Data from the Central Bank showed foreign investors sold government securities worth a net Rs. 8.8 billion ($ 52.19 million) in the week ended 19 September, the highest in a while. Sri Lanka has suffered a net outflow of Rs. 63.7 billion in securities so far this year.

Stock market turnover was Rs. 419.8 million on Thursday, around half of this year’s daily average of Rs. 788.7 million.

Foreign investors sold a net Rs. 110.5 million worth of shares on Thursday, extending the year-to-date net foreign outflow to Rs. 5.77 billion worth of equities. (Daily FT)

findmyfare.com flies high with $ 2 m investment by Ironwood Capital Partners

findmyfare.com, Sri Lanka’s largest and fastest growing online travel company, is flying high with the recent news of their raising series B funding from Ironwood Capital Partners.

The Company serves as a one-stop travel shop, offering its customers the very best deals available in the marketplace on hotel stays across Sri Lanka and flights to destinations around the world. findmyfare.com was the brainchild of Abishek Sithampalam and Thushan Shanmugarajah, two young entrepreneurs who set their mind to starting an e-commerce business from the time they were university students.

In 2012, they began their journey with a very small investment and a group of friends as staff. Whilst they themselves remain understated, their Company has taken the local travel industry by storm, growing at a compounded annual growth rate in excess of 70% over the past three years.

findmyfare has now surpassed several of the mainstays in this established industry by achieving an annual gross booking value of Rs. 3.2 billion in the fiscal year ended March 2018.

In addition, the Company has quoted over 300 million online fares last year, with 500k+ monthly flight searches and 100k subscribed customers on their website.

The significant investment that they recently raised will help further accelerate findmyfare's rapid ascent to the No. 1 market position in the Sri Lanka travel bookings sector. The collaboration does not disclose the stake value of the investor but it is confirmed that the Company plans to utilise the capital to further enhance its travel mobile app, improve the flight search algorithm, increase the number of airline partners, including low cost flight carriers, and invest in further hotel booking options.

Commenting on the Company's latest deal, findmyfare.com Co-Founder/CEO Thushan Shanmugarajah stated: "When Abishek and I started findmyfare, we aspired to transform the industry. We strive every day to fulfil that promise by providing outstanding customer service and continuously innovating and improving our products. Today, with this new investment, we are in a position to achieve that dream."

Co-Founder/Director Abishek Sithampalam added: "We were fortunate to attract excellent partners that invested in us thus far, including Guardian Capital and Jafferjee Brothers. We are now excited that a reputed investor such as Ironwood Capital Partners foresees the potential we have and has decided to invest in us."

Ironwood Capital Partners is a Private Equity Fund Manager set up to manage dedicated country funds for Sri Lanka. Ironwood Capital Partners assists companies such as findmyfare to unlock growth potential through leveraging their managerial, operational and strategic know-how along with providing access to international networks.

Ironwood Capital Partners Managing Partner Hiran Embuldeniya said: "Abishek and Thushan are two dynamic young entrepreneurs that launched one of the most exciting start-ups in Sri Lanka. They are incredibly committed to the business and are focused on finding ways to innovate and succeed in the travel space. We have to support more young people like this for the future of the country." (Daily FT)

$ 25 m social impact funds to boost Lankan private sector

For the very first time, a Sri Lankan private sector unique initiative pioneered by Lanka Impact Investing Network Ltd. (LIIN), Capital Alliance Holdings (CAL) and United Nations Development Program (UNDP) to drive sustainability development goals in Sri Lanka was showcased in New York on 25 September, on the sidelines of the UN General Assembly.

At the high-level side event which was co-hosted by UNDP, the Permanent Mission of the Republic of Turkey to the UN, and the Permanent Mission of the Kingdom of Norway to the UN, to discuss emerging business models to align the private sector with the SDGs, global pioneering examples were showcased, and the Foreign Minister of Sri Lanka highlighted this unique and key private sector-led initiative from Sri Lanka.

LIIN in partnership with Tempest PE Partners Ltd. (TPE) – partly owned by CAL, pioneered the establishment of the country's first indigenous social impact funds in collaboration with the United Nations Development Program (UNDP) to support social entrepreneurship and inclusive and sustainable businesses in the country, utilising a private equity platform.

On 26 September at the UNDP Headquarters in NY, the signing ceremony between Social Enterprise Fund Ltd. (SEF) and Social Impact Capital Ltd. (SIC) jointly owned by LIIN and TPE, and UNDP Sri Lanka as well as UNDP SDG Impact Finance took place.

The signing ceremony between LIIN, CAL and UNDP was witnessed by Foreign Minister Thilak Marapana and UNDP Administrator Achim Steiner.

LIIN Founder and Chairman Chandula Abeywickrema and CAL Managing Director Deshan Pushparajah signed on behalf of the two funds and UNDP Assistant Administrator Haoliang Xu signed on behalf of UNDP.

This pioneering initiative to create access to private equity to social entrepreneurs and inclusive and responsible businesses by LIIN, in partnership with TPE and UNDP, has created two new funds.

The first is the Social Enterprise Fund (SEF) of $ 5 million, catering mostly to micro, small and medium social entrepreneurs with investment ticket sizes ranging from $ 5,000 to $ 50,000.

The second is the Social Impact Capital (SIC) fund of $ 20 million, catering to inclusive and responsible businesses who integrate and promote social impact in the core of their business models. The investment tickets size in the SIC is larger, ranging from $ 100,000 to $ 250,000.

Lanka Impact Investing Network Chairman Chandula Abeywickrema and UN (Asia) Assistant Secretary General Haoliang Xu signing the agreement at the UNDP Head Office in New York witnessed by Minister of Foreign Affairs Thilak Marapana and UNDP Global Head Achim Steiner. (Daily FT)

I am media's favourite punching bag: Ranil

Prime Minister Ranil Wickremesinghe evoked Voltaire last evening as he defended the extent of media freedom in the country, while at the same time poking fun at some of the negative press coverage that has followed him since taking office three years ago.

"We have all stood up for the principle of media freedom, and that is best seen in Sri Lanka by the fact that the most abused person in Sri Lanka – directly or indirectly – is me," stated the Prime Minister. "I have to say, like the old French saying, I defend to my last drop of blood your right to abuse me."

Wickremesinghe was addressing an event marking the 20th anniversary of the Colombo Declaration on Media Freedom and Social Responsibility, a landmark achievement in terms of establishing an independent media in Sri Lanka. Introduced in 1998, it was a precursor to the establishment of the Sri Lanka Press Institute, Press Complaints Commission of Sri Lanka, and the Sri Lanka College of Journalism, while it also laid the groundwork for the 2002 abolishment of laws related to criminal defamation.

However, the Prime Minister, making note of the many lives of journalists that have been lost in the struggle for media freedom over the years, was at pains to point out that since 2015 – a milestone in terms of media freedom in the country – media organisations have at times overstretched their bounds in terms of fair and balanced coverage.

"When we look back, there are many of you here who walked the length with us, who fought to establish media freedom. Amongst them are those who are not with us, who sacrificed their lives. Lasantha Wickrematunge, Prageeth Eknaligoda, a group of journalists from the Udayan newspaper.

When I am asked about the inquiries, what I tell people is, 'one of the police officers who was inquiring told me, so how can we inquire when the media is abusing us and making us the villains?'"

"We all fought on the basis that facts are sacred, comment is free. But we have a media which says now that comments are sacred and facts are free. This is from someone who has fought and who has proved that he is committed to upholding the freedom of the media," he added.

In light of this, the Prime Minister noted that the Government would look into training more journalists so as to attain a better standard of journalism in the country going forward.

"The training of journalists is certainly an issue we can go into and see what type of help and assistance can be given – though I wonder if I'll be accused of training people to abuse me, when in fact I should be training them to praise me."

Wickremesinghe also addressed points of contention brought up earlier in the session, most pertinently in terms of the country's ambiguous Contempt of Court laws. As it stands, it is not clear if a journalist can be held in contempt if they refuse to divulge the name of a source to Court. The Premier assured it would be looked into, but noted that both Parliament and the Judiciary would have to work together.

"We need legislation on the Contempt of Court issue but you have to remember there is another stakeholder, the Judiciary. The Parliament and the Judiciary will have to work together to bring in laws on the Contempt of Court. I don't think it's impossible. The oversight committee and the Judiciary could certainly go into it, but it requires extensive consultations also with the Judiciary in regard to the matter of Contempt of Court."

SLPI calls for drop in newsprint tax

The Sri Lanka Press Institute (SLPI) yesterday called on the Government to lower its tariffs on newsprint, voicing concerns that it was leading to a depletion to credible voices in the media.

"Newsprint which is imported has escalated in price and coupled with the depreciating rupee, has impacted heavily on the industry," said SLPI Chairman Kumar Nadesan, addressing the gathering at the 20th anniversary celebrations of the Colombo Declaration on Media Freedom and Social Responsibility in Colombo yesterday.

"We would request that the taxes by way of CESS and Ports Authority levy, together with VAT, be reconsidered so that we may continue to provide the public with affordable and credible news, as against other news platforms which may not be altogether true or valued."

As per the latest Government tax revisions, Ports and Airport levy on newsprint has increased to 7.5%, VAT to 15%, CESS to 5%, and NBT to 2%. Speaking in the company of both the Prime Minister and the Finance Minister, Nadesan also drew a humorous comparison to US President Donald Trump.

"On a lighter note, I might add that even Trump has removed all tariffs from Canadian newsprint, presumably for the benefit of the public." (MB) (Daily FT)

ADB approves $ 300 m loan for construction of elevated highway linking capital to New Kelani Bridge

The Asian Development Bank (ADB) Board of Directors has approved a $ 300 million loan to Sri Lanka for the construction of an elevated highway linking the capital, Colombo, to a new bridge being constructed across the Kelani River.

The loan facility will finance the construction of about 5.3km of elevated toll highway with related facilities between the New Kelani Bridge (NKB) and Galle Face in central Colombo in Sri Lanka.

The new highway is expected to ease traffic congestion, improve connectivity, and facilitate trade logistics in the country, ADB said in a statement.

"Improved connectivity and infrastructure development are essential if Sri Lanka is to reach its potential as a trade and logistics hub in South Asia," said ADB Senior Transport Specialist for South Asia Kanzo

Nakai. "The new highway will help provide a direct link to the city centre and the Port from the Colombo-Katunayake Expressway through the NKB, improving connectivity and contributing to growth."

In 2016, the Port of Colombo handled about 1.3 million 20-foot equivalent units (TEUs) of gateway container cargo, which could double to 2.5 million TEUs in 2030 as Sri Lanka continues to grow. The Port, however, is only serviced by a four-lane, ground-level access road passing through its main gate, which intersects with Baseline Road, one of the busiest trunk roads in Colombo. This leads to serious traffic congestion in the city and holds back trade and mobility.

The 5.3km elevated toll highway, to be built as part of the South Asian Subregional Economic Cooperation (SASEC) Port Access Elevated Highway Project, will include related road facilities including an advanced electronic toll collection (ETC) system, which will eventually be installed on the entire expressway network.

The Project will also upgrade 1.4km of the ground-level port access road from four to six lanes, while a maritime facilitation centre will be constructed to provide better services to port users and relocate and gather the administrative and operational functions of the Port, many of which will be affected by the construction of the elevated highway. The Project also contributes to regional connectivity and trade, in line with SASEC's goals.

Additionally, ADB will provide a $ 500,000 technical assistance for the Expressway Operations Improvement component of the Project, which will strengthen the operational capacity of the expressway regarding its toll rate policy and the ETC system.

The Japan Fund for Poverty Reduction, financed by the Government of Japan, will also provide a $ 1.25 million grant to support trade logistics facilitation for customs modernisation.

The total cost of the Project is $ 360.2 million, with the Government of Sri Lanka contributing $ 60.2 million. The Project is expected to be completed by mid-2025.

ADB is committed to achieving a prosperous, inclusive, resilient, and sustainable Asia and the Pacific, while sustaining its efforts to eradicate extreme poverty. Established in 1966, it is owned by 67 members – 48 from the region. In 2017, ADB operations totalled $ 32.2 billion, including $ 11.9 billion in co-financing. (Daily FT)

Cardinal, politics, force SriLankan to fly to Rome, Moscow despite losses: inquiry

State-run SriLankan Airlines had to continue flights to Rome and Moscow despite making losses due to the intervention from a Catholic Cardinal and political interference, a commission of inquiry heard.

Head of Finance Management at SriLankan Yasantha Dissanayake told a Presidential Commission of Inquiry into frauds at state airlines, that the airline's board of directors and the Treasury had wanted to cut down routes which were making losses in 2011, as the company was in financial trouble.

He said a special report on cutting expenditure had recommended halting flights to Rome, Moscow, Zurich and Milan.

"European routes were losing more money, so we wanted to cut down," he said.

However, he said then-Chief Executive Kapila Chandrasena had informed the SriLankan Board that it would take four more months to stop the Zurich and Milan flights, and that the Moscow and Rome flights cannot be cancelled.

Senior Deputy Solicitor General Niel Unamboowe questioned why the Moscow and Rome flights could not be cancelled.

"He (Chandrasena) told me higher authorities had asked him not to cancel," Dissanayake said.

Upon further questioning, he said that Chandrasena had told the senior management team that the Cardinal of Colombo had complained to then President Mahinda Rajapaksa agaisnt SriLankan's plans to cancel flights to Rome.

Chandrasena had not given a reason for why the Moscow flight could not be cancelled, Dissanayake said.

The commission earlier heard that excessively high fees had been paid to a General Sales Agent for Russia which was connected to a network of agencies run by the same person.

The agency had been started on the request of then ambassador Udayanga Weerasinghe, who was a relative to President Rajapaksa.

Sri Lankan LLC, the airline's GSA in Russia, had received 5.5 percent commissions on passenger tickets and 5 percent cargo commissions, initially, which was much above the 2.5 percent ceiling for passenger commissions and 3 percent for cargo set in a manual prepared in 2009.

In 2014, the terms were changed to 4 percent commission and fuel surcharge fees, as well as 1 percent online sales commissions, despite fuel surcharges and online sales commissions not being a part of the 2009 manual.

The commission was told that the GSA agreement was extended for 3 years in 2014, despite Sri Lankan LLC performing below targets given by the airline. (Economy Next)

Morisons de-listing deadlocked on Sri Lanka rule

A proposed de-listing Sri Lanka's Morisons Plc, has hit a road block after minority shareholders opposed proposal for the parent to buy up remaining shares under existing rules which has also deadlocked other attempts to take firms private.

Sri Lanka has imposed tight minimum float rules - which critics have said is in some ways than the New York Stock Exchange - forcing many firms to go out of the stock exchange and de-list.

"…[T]he resolutions for the delisting of the Company from the Colombo Stock Exchange were not adopted by the shareholders of the company at the Extraordinary General Meeting…" the Morisons said in a stock exchange filing.

Under Sri Lanka's rules on de-listing minority shareholders present at the meeting have to approve a de-listing by a show of hands without regard to the stake of the controlling shareholder.

The rule has prevented several firms from de-listing, despite the offer of prices above market to take firms private.

Hemas Holdings Plc, the parent of Morisons, had offered 850 rupees for what is called an 'ordinary share' in Sri Lanka and 700 rupees for a non-voting share. In August Morisons ordinary shares traded at 625 rupees and non-voting shares at 531.70 rupees.

Under general principles accepted internationally ordinary shares are supposed to rank 'pari pasu' or equal.

Earlier a unit of AIA Insurance was also unable to de-list despite offering an above market price. Insurance firms were at one time encouraged to list for governance and transparency.

The coercive minimum float rule also created an extraordinary situation of forcing Property Development, a unit of state-run Bank of Ceylon to de-list and go back into state hands, at a time when calls are being made for state firms to be listed, partly to improve governance. Even in communist nations, small stakes of state firms are being listed.

However minority shareholders blocked the de-listing of Property Development as well, with the aid of the rule requiring a show of hands.

In a well-functioning market firms can be taken private voluntarily provided the controlling shareholders have large majority of shares.

There are fears that the inability to take firms private, like in well-functioning markets will eventually discourage owners of private firms from coming for listings in the first place.
(Economy Next)

ADB lowers Sri Lanka growth expectations for 2018 and 2019

Sri Lanka's annual growth rate has been lowered this year and the next in the Asian Development Bank's latest outlook owing to weak investments and exports.

In an update to its Asian Development Outlook, the ADB said it had revised down the island's annual economic growth rate to 3.8 percent from 4.2 percent in 2018 and 4.5 percent from 4.8 percent in 2019.

"Sri Lanka's growth forecast is downgraded for both this year and next on weak investment and exports, and as the government implements structural reform to lift its fiscal performance," the report said.

"By contrast, inflation moderated in Sri Lanka with easing food prices and the statistical base effect from last year's high prices."

The update lowered the outlook for inflation down to 4.5 percent from 5.2 percent in 2018 and 4.7 percent from 5.0 percent in 2019.

Growth projections are revised down for Sri Lanka where the first quarter witnessed tightening government consumption, stagnant fixed investment, and lower net exports, the ADB said.

Overall, the ADB said South Asia as a region is on track to meet the 7.0 percent subregional growth forecast in ADO 2018 with continued recovery in India, and to accelerate as forecast to 7.2% in 2019 with faster expansion in the rest of the region.

"Continued expansion in manufacturing and construction supports the earlier 7.6% growth forecast for these sectors this year," the report said.

“Growth forecasts for Bangladesh, Nepal, and Pakistan are upgraded on higher domestic demand and supportive government policies, including currency devaluation and, in Pakistan, the imposition of new tariffs on imported goods.” (Economy Next)

Sri Lanka could benefit from campaign to entice expat skills: economist

Sri Lanka can make major gains from an aggressive campaign to entice professionals living abroad coupled with visa de-regulation, to bring new skills and international business links in line with other fast growing nations, an economist said.

"We have to take aggressive measures to keep migrant professionals linked to our economy,” Bilesha Weeraratne, an economist at Colombo-based Institute of Policy Studies said.

"It can become a cycle and benefit a lot of people," Weeraratne said.

At the moment, the contribution from most migrant professionals is that they come back once a year to visit, and spend like tourists before returning to their new country of residence, she said.

Professionals living abroad could be enticed to give financial assistance and expertise for projects in Sri Lanka, find new opportunities for locals to trade and create business links and find investment partners, she said.

Nobody's Baby

Weeraratne said a creative promotional campaign could be launched with the help of a professional advertising agency.

"There is very little done to get these professionals to contribute. There needs to be a campaign,” she said.

"Right now it’s nobody’s baby, whether it’s the Foreign Employment Ministry or the Ministry of Foreign Affairs.”

"It’s a thorny issue. With the Tamil Diaspora, nobody wants to touch it, but there’s a lot of potential."

The Foreign Affairs Ministry had attempted to take initiative in 2015, but had drawn criticism for it.

The migration of professionals outward has accelerated over the past decade, reaching a compounded annual growth rate of 8.4 percent.

In the 10-year period up to 2017, 46,735 professionals have migrated from Sri Lanka for foreign employment, according to official data, compared to 12,807 a decade earlier.

Around 93 percent of the professionals migrating are males.

Sri Lanka's rupee has also depreciated rapidly in recent years, which destroys real wages making for both brain drain and brain drawn, while also killing capital needed to boost labour productivity, some analysts have said.

Competition

Weeraratne said foreign governments give family visas and overseas companies offer attractive incentives, such as accommodation allowances, in addition to high pay, to bring in professionals and their families to help their economies.

“The bait is that the whole family can come. Most often, due to assortative mating, a professional’s wife will also be a professional,” she said.

“Ultimately Sri Lanka loses two people, as well as the second generation, because it’s also likely that their children will also be highly skilled and professionals.”

Many of the professional migrants are in the financial sector, taking up jobs in the Middle East, while a number of hospitality industry persons have also been seen leaving for the Middle East and the Maldives, Weeraratne said.

Sri Lanka should regain their expertise if it is to become the regional services hub the government is aspiring it to become, she said.

Various tactics can be used to entice the migrants, she said.

"Some people value family. Then you have to find ways to entice them through that," Weeraratne said, speaking from personal experience.

"Most often, these families don’t rely on remittances. It’s the general economy that benefits from it," she said.

Appeals could be made to other professionals to give back to an economy which helped them through free education, she said.

"Push for the soft spot."

Nationalist Visas

However at the moment, Sri Lanka's visa rule makes it extremely expensive for a foreign resident Sri Lankan to come back, unless the spouse and children are also Sri Lankan passport holders.

Even if an expatriate Sri Lankan who is married to a foreign passport holder comes back for a job in the home country - usually at a lower salary - his or her spouse cannot work due to a nationalist visa system.

Weeraratne said that visa processes need to be more open to facilitate the involvement of professionals in activities in Sri Lanka.

"Our visa categories, unless they come settle down, we can’t offer them an employment situation," she said.

"There has to be some flexibility there where they can work from offshore, or do small stints where they don’t have to fill out all these forms for work. When it’s such a hassle, they don’t want to come.”

"There has to be some conducive and inviting mechanism so that they get attached and contribute to the economy even though they’re not here.(Economy Next)