

IMPLICATIONS OF BUDGET 2022 ON MARKETERS

BUDGET PROPOSALS - NOVEMBER 2021



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'New Normal' and the Budget

The past one and half years has been a challenging period globally, with governments, businesses and consumers, having to face a series of unforeseen adversities. As a developing nation, Sri Lanka too had to face its own challenges, heightened by the uncertainty imposed by the pandemic.

The country's economy decreased by 3.6% in 2020, with key sectors contributing to the economy, including manufacturing, apparel and tourism operating at limited capacity throughout the year. Sri Lanka's second largest foreign exchange earner, the tourism industry, which at its peak brought in USD 4.5 billion foreign exchange in 2018 into the country, is yet to recover to pre-pandemic levels of performance, posing a considerable constraint to the country's foreign exchange position. Sluggish foreign exchange inflows, coupled with the burden of external debt obligations, have had a serious impact on Sri Lanka's external finances, leading the Central Bank of Sri Lanka to restrict imports to curtail dollar outflows. This has affected numerous businesses which rely on imported inputs for their products/services.

In this backdrop, businesses as well consumers have had to make adjustments and adopt accordingly, which has given rise to a sea of new opportunities as well as new challenges. As marketers, it is important that we opt to see the glass as half full rather than half empty, and recognise opportunities accordingly, in order to help businesses to make timely gains and contribute towards uplifting the economy.

According to our view, the 2022 budget presented in parliament, carries some valuable opportunities that we as marketers could seize and capitalize on. We have categorised these identified opportunities under three key areas:

1. Potential for new brands and products to emerge locally
2. Opportunities in the digital and technology sphere
3. Availability of creative resources

The report deconstructs each of the above areas in detail, shedding insight on the respective sub-segments and direct opportunities stemming from these.

As much as we strive to make use of the opportunities available, it is also important to be cognizant of the challenges in order to re-shape our thinking on how to creatively navigate these areas and to think of practical strategies. As mentioned above, it has been a tough phase for our economy, with businesses and consumers alike being hit from the vagaries of the pandemic.

The 2022 budget carries certain tax proposals that are likely to affect the bottom-line earnings of relevant businesses that are already operating in a difficult business environment. This in turn could have an impact on the marketing budgets of such corporates. Thus, marketers are compelled to come up with more creative solutions, that may even be unorthodox, to reach mass audiences through more cost-effective channels, while accepting that 'it is not business as usual'.

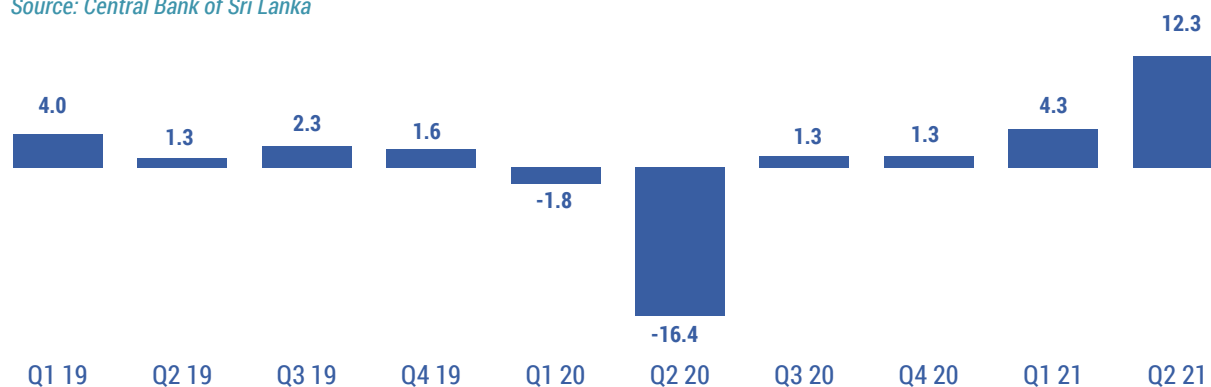
The government's tax revenue collection strategies indicate a reliance on the levy of indirect taxes, such as taxes on goods and services and import taxes to increase government revenue. In addition, to reduced disposable incomes, customers will thus have to contend with higher prices of goods and services. Therefore, reducing the total share of wallet available for expenditure on goods and services deemed non-essential. Post-pandemic income recovery is predicted to be slow considering the macroeconomic context of Sri Lanka, hence marketers should be cognizant of the increased scrutiny of customers, especially those in lower-and middle-income categories will place on future purchases.

Lastly, in light of the new opportunities and challenges faced in a shifting business landscape, we cannot emphasize enough on the importance of collaboration. Marketers, as well as other professionals, cannot be expected to work in silos. To unlock the opportunities presented and to successfully navigate challenges faced it is essential that we work together with experts and specialists in different fields.

Economic Overview

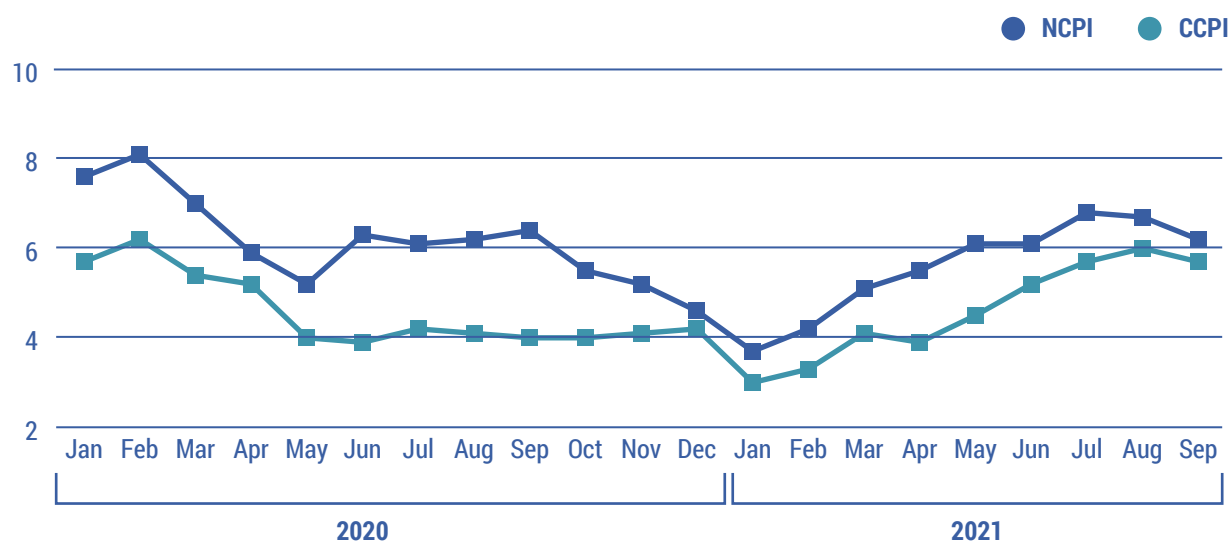
SRI LANKA'S QUARTERLY GDP GROWTH (%)

Source: Central Bank of Sri Lanka



MOVEMENT IN NCPI AND CCPI BASED HEADLINE INFLATION (%)

Source: Central Bank of Sri Lanka



SRI LANKA'S TOP 5 EXPORTS IN 2020

Source: Central Bank of Sri Lanka

	Value (USD Mn)	% of Total Exports
Textiles & Garments	4,423	44
Tea	1,241	12
Rubber Products	786	08
Food, Beverage & Tobacco	464	05
Petroleum Products	374	04



01

Potential for new brands and products to emerge locally

1.1 FOCUS TOWARDS NEW LOCAL BUSINESSES, BRANDS AND PRODUCTS

The budget encourages potential new brands and products emerging locally, related to hand-loom and batik textiles, organic agriculture, value-added agriculture, renewable energy, milk, sugar and medicine, electrical and electronic appliances sectors.

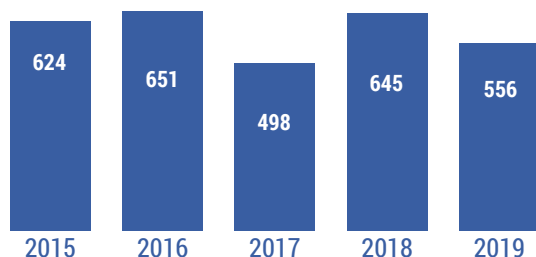
The government's import substitution strategies outlined in its budget policy statement aim to reduce dependency on imports while enhancing export market opportunities. The government has identified several sectors as such, those mentioned specifically are:

- 01 Organic fertilizer production industries
- 02 Rubber industrial products
- 03 Export based agro-processing
- 04 Livestock
- 05 Agricultural equipment and machinery
- 06 Fisheries and aquaculture development
- 07 Pharmaceutical production
- 08 Production of chemical materials
- 09 Electric and electronic appliances and IT products
- 10 Production of sports equipment
- 11 Steel and heavy metal Industry
- 12 Production of raw material for textile and apparel industry

Sector Indicators

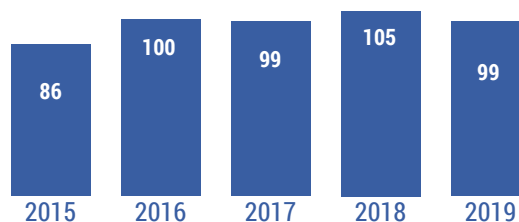
SUGAR IMPORTS (MT 000)

Source: Central Bank of Sri Lanka



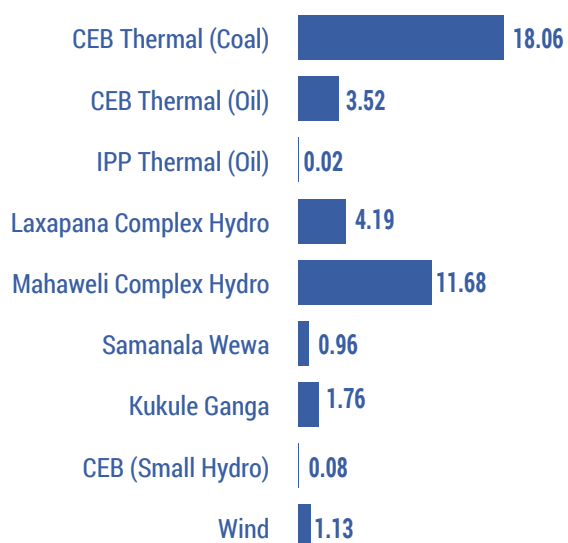
MILK/MILK PRODUCTS IMPORTS (MT 000)

Source: Department of Animal Production & Health



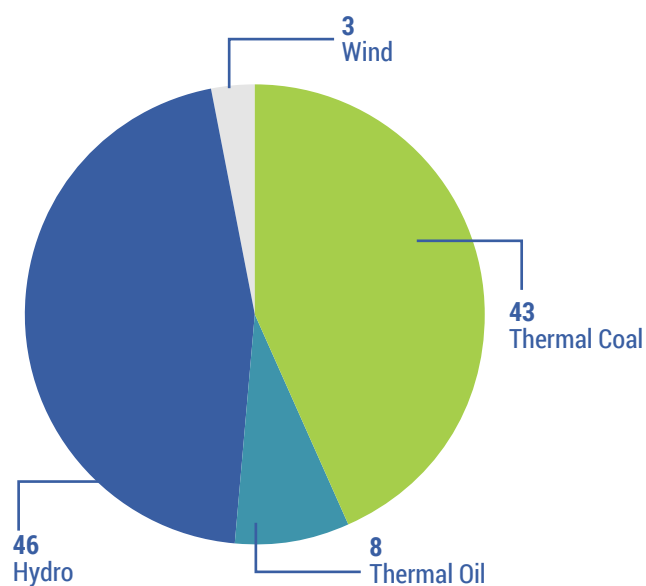
ELECTRICITY GENERATION SUMMARY (GWH)

Source: Ceylon Electricity Board



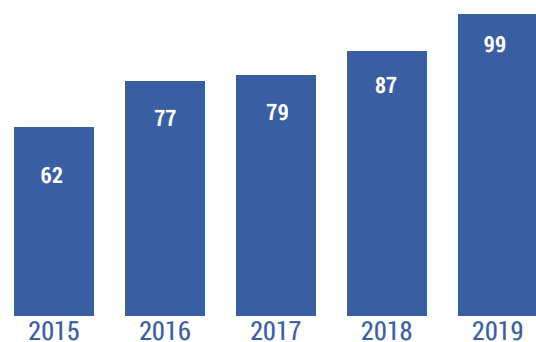
POWER GENERATION BY SOURCE (%)

Source: Ceylon Electricity Board



MEDICAL/PHARMA PRODUCT IMPORTS (RS BN)

Source: Central Bank of Sri Lanka



01

Budget proposals related to this point

Positioning Sri Lanka as an energy hub in Asia: Two new Refineries focused on exports, planned to be established in Hambanthota and Trincomalee. Opportunity for Sri Lanka to produce and export Green hydrogen from surplus renewable energy.

Rs. 4,000 million allocated to promote the usage of alternative weedicides, in addition to Rs 45,798 million allocated for organic agricultural activities through the Appropriation Bill 2022.

Investment opportunities in energy sector opened for private sector, aimed at fulfilling 70% of the aggregate electricity demand through renewable energy by 2030.

Proposals to create strong import substitution industries through manufacture of organic fertilizer, renewable energy, Milk, Sugar and Medicines.

Actions proposed to review issues, requirements and deficiencies in relation to the production of fruits, vegetables, fish-based products, liquid milk and commercial crops and to expand local and international market-oriented products.

Allocation of Rs. 1,000 million in addition to the allocation already made under the 2022 Appropriation Bill, for investments in the livestock sector.

Rs 1,000 million allocated for the development of textile industries including handloom and Batik. The government is targeting an export income of USD 1 billion for handloom and Batik products by 2025.

Green Agricultural Development Act to be drafted to protect the traditional knowledge of farmers and safeguard their rights to land ownership, water distribution and participation in the decision-making process. The budget proposes to facilitate and encourage the private sector to produce medicines targeting the international market by taking steps to promote pharmaceutical production.

Action to be taken to remove obstacles in purchasing raw materials for the production of electrical and electronic appliances and promote investments by the private sector to meet international demand.

01

Direct opportunities for marketers

- Green marketing: an opportunity to establish/rebrand products, services, brands in specified sectors as environmentally conscious, to tap into the government's stated strategy, as well as to global consumer trends.
- Potential to pivot or establish businesses operating in organic agriculture and those engaging in environmentally conscious agricultural practises.
- Marketing Campaigns catering to local and international audiences.
- Brand identity design.
- Sustainable (eco-friendly) design solutions to tap into emerging consumer trends especially in Western markets.

01 Potential for new brands and products to emerge locally

1.2 ENTREPRENEURSHIP AND EXPORT ORIENTATION; STIMULATION AND MOTIVATION FOR ENTREPRENEURSHIP, ESPECIALLY IN EXPORT ORIENTED GOODS AND SERVICES

The budget indicates encouragement of start-ups and entrepreneurship, especially in the technology space, to provide products and services solutions to meet the needs and demands of the society. This has a significant implication for economic growth through innovation, youth entrepreneurship and job creation in the country.

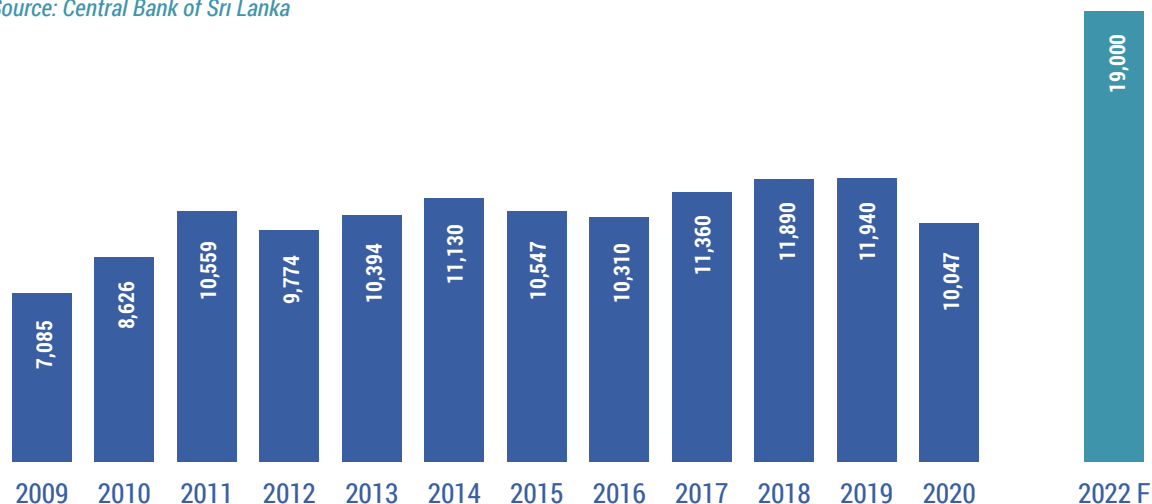
The budget proposes the establishment of a National Single Window system for Sri Lanka Customs to facilitate the import and export process which should significantly increase the ease of doing imports and exports business in the country.

The government plans to improve income generation and entrepreneurship opportunities for women through island wide economic development programmes. This will create significant opportunities for women led businesses in the country.

Further, the government hopes to increase export earnings to USD 19 million by 2022, which is nearly a USD 8 million increase from present levels. Although ambitious, this presents significant export opportunities for new and existing businesses.

VALUE OF EXPORTS FROM SRI LANKA (USD MN)

Source: Central Bank of Sri Lanka



01

Budget proposals related to this point

The business registration fees will not be levied in the year 2022 in order to incentivize new start-ups.

Act on Rights of the Differently Abled to be introduced whilst launching a programme for the development of their entrepreneurship and skills.

Establish a National Single Window system for Sri Lanka Customs in addition to introducing advanced technological tools for customs operations.

Amend laws and regulations that impede the inflow of foreign exchange inflows.

Rs 15,000 million allocated to establish a mini supermarket network at Grama Niladhari Division Level to encourage female entrepreneurship.

01

Direct opportunities for marketers

- As this encourages Tech entrepreneurship and new businesses in general, there will be many opportunities in small-medium businesses.
- The setting up and operation of export-oriented businesses for both goods and services will be relatively easier.
- Identify and capitalize on European Union GSP+ and US GSP programs to develop export-oriented products for these markets.

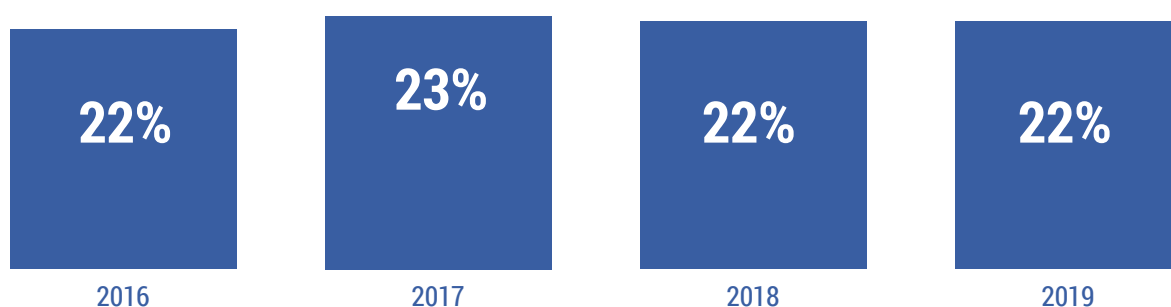
02 Opportunities in Digital and Technology spheres

2.1 DIGITAL GOVERNANCE: OPPORTUNITIES IN TECHNOLOGY AND DIGITAL SPHERES

The budget emphasises that there is a need for public and private entities to improve their businesses, products and services in line with new technology, stating that ‘digitalization is no longer an option’, which, if materialises according to plan could result in improved digital infrastructure in Sri Lanka – which could potentially yield opportunities in the digital marketing space, with more and more people shifting and adopting to digital operations.

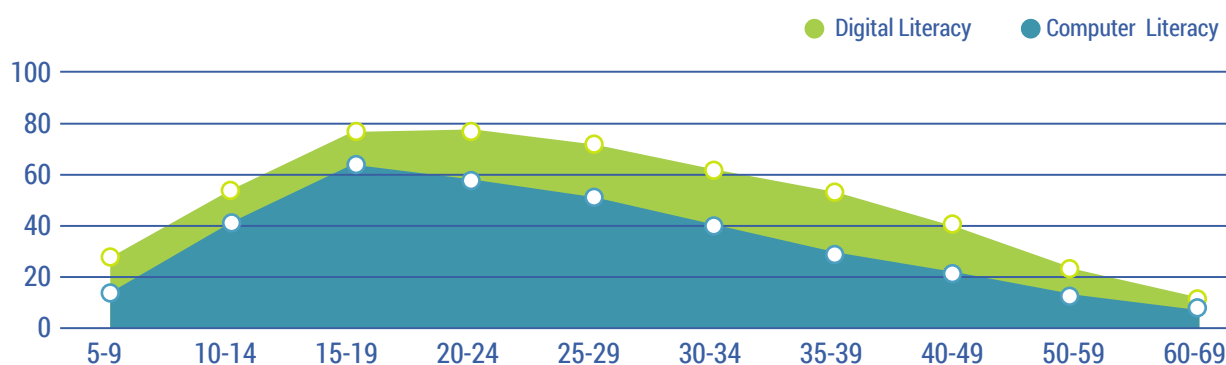
PERCENTAGE OF HOUSEHOLDS THAT OWN A DESKTOP/LAPTOP IN SRI LANKA

Source: Department of Census & Statistics



COMPUTER LITERACY AND DIGITAL LITERACY IN SRI LANKA - AMONG AGE GROUPS (%) (2019)

Source: Department of Census & Statistics



02

Budget proposals related to this point

Banks encouraged to convert their branches into smart banking units, using digitalization.

To boost a techno-entrepreneurship driven economy, the budget 2021 proposed the establishment of techno-parks of which two are already being set up in Kurunegala (Rathgalla) and Galle (Akmeemana) while by 2023, three new techno-parks are proposed to commence in Habarana, Nuwaraeliya (Mahagasthota), Kandy (Digana).

Allocation of Rs. 5,000 million to make the judicial functions efficient through digitalization of human resources required for reforms in laws related to criminal, civil and commercial laws and to ensure the continuity of the programme to develop Court infrastructure facilities.

Allocation of Rs. 4,000 million to increase the productivity and efficiency of the public service through the introduction of a client charter, introducing client-centric KPI's and digitizing public service.

Proposed to expedite the implementation of the digital revenue collection system of the Excise Department and simplify the excise licensing process.

It is proposed to strengthen the Revenue Administration Management Information System (RAMIS) of the Department of Inland Revenue to enhance revenue collection.

A country wide telecommunication network to be established covering all 10,155 schools in the country using Fibre Optic technology.

Technologies such as Blockchain to be used to strengthen internal systems.

02

Direct opportunities for marketers

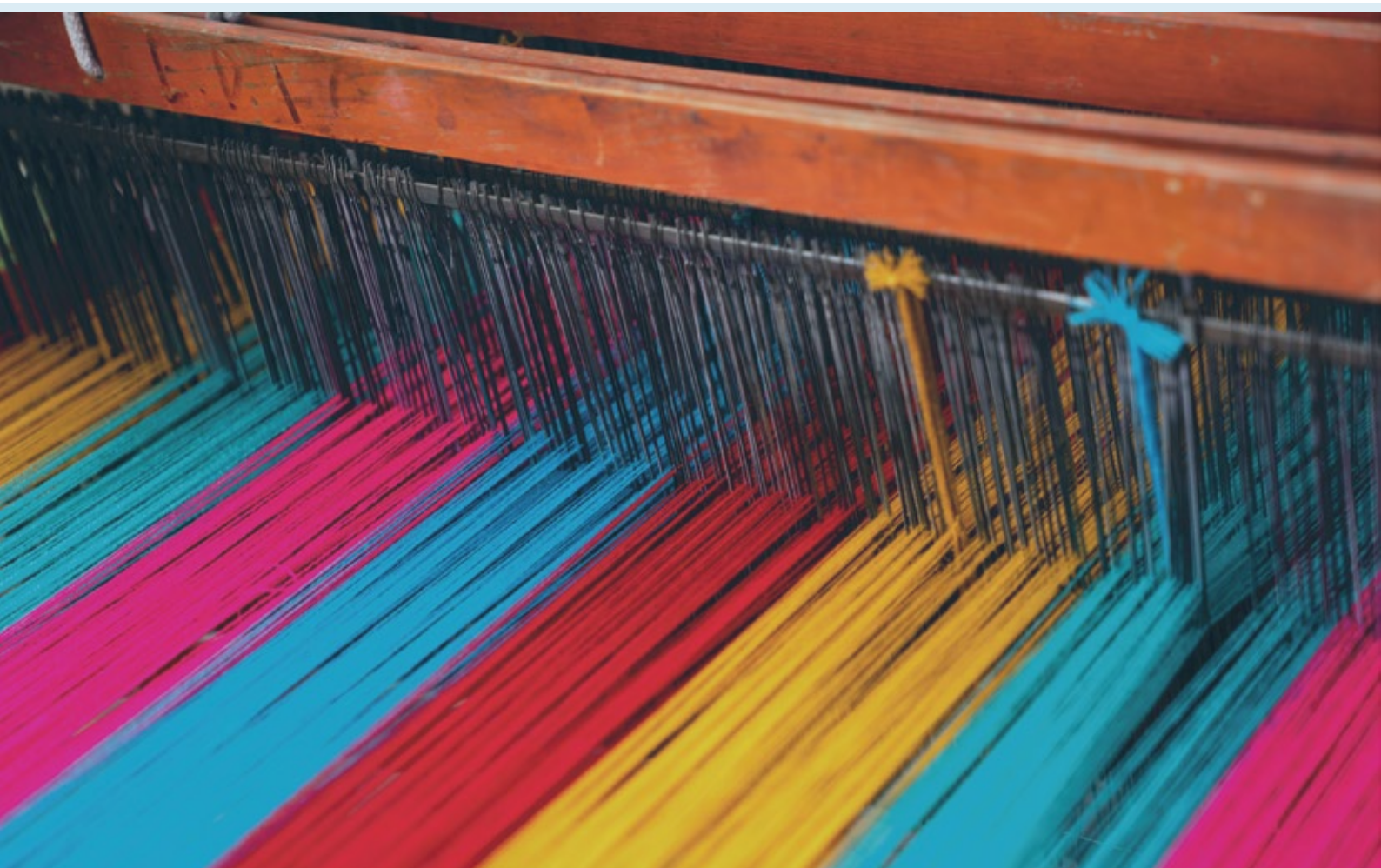
- Potential for businesses involved in UI/UX design solutions as public and private organizations undergo this digital transformation.
- Digitization can lead to emerging interests in data collection, data analytics, research and consultancy services which is yet a relatively underdeveloped sector in the country.
- Digital marketing solutions that go beyond social media.

03

Availability of creative resources

3.1 ENCOURAGEMENT OF TRADITIONAL COTTAGE INDUSTRIES AND FREELANCE TALENT

The budget gives emphasis on reviving traditional cottage industries of Sri Lanka. It also speaks of facilitating payments to freelancers operating digitally – these proposals are a positive for strengthening Sri Lanka's creative economy, which in turn is likely to benefit the advertising industry, in terms of availability of talent and local creative sources available. This should help make Sri Lankan individuals better able to provide services internationally and receive payments for these services directly.



03

Budget proposals related to this point

Laws and regulations that impede the inflow of foreign exchange earned by young free-lancers proposed to be amended through development and upgrading of new software through IT knowledge and artificial intelligence and new innovations.

Rs. 1,000 million in addition to the already allocated provisions for the development of traditional cottage industries including rattan, clay-based products, brass, lacquer, masks, coconut shell, jewellery, stone carving, flax fibre and Dumbara patterns.

Allocation of Rs. 1,000 million for the development of textile industries including handloom and batik.

Proposal to introduce contributory pension schemes for those not eligible for pensions, thereby increasing the income security for those involved in non-traditional or formal sectors.

03

Direct opportunities for marketers

- Product development and marketing opportunities in traditional cottage industries – locally and internationally.



04

Way-forward for Marketers

It is no secret that the businesses have been operating under challenging circumstances, where it has not been 'business as usual' for many organisations. From a country perspective too, the economy has had to face many hardships, and it will continue to be so for a while, until things settle down to a somewhat stable setting. In light of this situation, the budget proposes several tax initiatives:

A surcharge tax of 25% will be charged on individuals and companies with a taxable income over LKR 2 Bn for the Y/A 2020/2021.

With effect from 01 January 2022, a special GST would be implemented on cigarettes, telecommunication, motor vehicles, liquor, betting, and gaming sectors.

VAT payable on financial services is proposed to be increased to 18% from the previous 15%, temporarily for the period from 01 January 2022 to 31 December 2022.

Considering the impact such tax proposals may have on budgets of relevant corporates, it is likely that marketing budgets be shaved down by a certain level. As marketers, we should not be taken by surprise at this, and instead use this challenge as yet another opportunity to come up with more creative solutions that are beyond the traditional marketing approaches.

In addition, customers have reduced incomes, which are predicted to recover slowly, so competition for the reduced share of wallet among different products, services and brands will be tight. The export-oriented strategy the budget proposes however provides a new and more lucrative base of customers for products and services and for marketers to tap into. With the anticipated growth in exports, and proposals in strengthening the port capacity, we need to develop strong export brands to cater to such international markets, for which marketers will have a pivotal role to play.

At the outset, given that digital marketing channels are relatively more inexpensive, compared to traditional mediums, this favours digital marketing solutions, more. However, it is important that we understand the essence of brands and brand values, and use marketing channels and mediums more creatively, innovatively and effectively, beyond mere social media campaigns.

Adversity often leads to innovation and opportunity: Uber, for example, started in the aftermath of the US financial crisis of 2008 and has now gone on to become one of the most valuable technology companies around the world. The economic slowdown and resulting consequences also provide an unprecedented opportunity for existing businesses to reengineer and optimize their operations. As marketers, we must consider adversity as an opportunity, and opportunities must be seized.

SLIM Research Bureau (SRB) recognises and deeply appreciates the efforts of:

- Prof. Janak Kumarasinghe,
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- Prof. Nalin Abeysekera,
Professor in Management, Head of the Department,
Department of Marketing, Faculty of Management Studies (FMS),
The Open University of Sri Lanka

who gave their time and expert insights to enrich this report.

SLIM RESEARCH BUREAU

SLIM Research Bureau (SRB) is a newly formed operation associated with SLIM, the apex body of Marketing in Sri Lanka. SRB aims to support students, marketers, SMEs and entrepreneurs by being at the forefront of decision-making and planning as a trusted source of information and insights with the ambition of driving the country towards a knowledge-based economy.

SRB offers a range of market research solutions from ideation to commercialization and post-launch evaluations. SRB also undertakes commissioned research to provide expertise and aid in enhancing the marketing fraternity

Types of research conducted:

- 01 Concept evaluation
- 02 Advertising evaluation
- 03 Product evaluation
- 04 Product testing
- 05 Campaign effectiveness
- 06 Customer & employee satisfaction



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