



Central Bank of Sri Lanka

News Survey

Volume 45 Number 1 January - March 2025

IN THIS ISSUE

- | | |
|----|---|
| 02 | <i>Resolution of Financial Institutions</i> |
| 11 | <i>Strategic Assets Allocation for Foreign Exchange Reserves Management</i> |
| 18 | <i>What are the dynamics behind pyramid schemes that cause people to fall victim to such schemes?</i> |
| 23 | <i>Leveraging Circular Economy Strategies for Economic Revitalisation</i> |
| 28 | <i>Countering Cybercrime in Sri Lanka – Challenges, Opportunities, and Way Forward</i> |



ISSN 1391 3589

The views expressed in the articles are those of the writers and are not necessarily those of the Central Bank of Sri Lanka.

Price per copy: Rs. 80.00
Annual subscription (Inclusive of postage): Rs. 500.00

Resolution of Financial Institutions

W M D M Wijesundara

Senior Assistant Director
Deposit Insurance and Resolution Department



1. Introduction

Financial Institutions (FIs) provide important services to citizens, businesses, and the economy at large and more often dominate the financial industry of a country. Vulnerabilities and severe imbalances in fiscal and external sector of economy will create severe economic downturns and it is a major risk confronted by a financial industry. An economic downturn affects people's lives in many ways such as higher unemployment, reduced economic activities, rise in poverty, reductions in income and wealth, fall in asset prices, higher government borrowings, firms out of business and greater uncertainty about future jobs and income.

Consequently, FIs may also experience in difficulties to meet their financial obligations due to continuous decline in value of assets, lower debt recoveries from businesses and consumers, continuously devaluation of currency and liquidity shortages. This may even lead to a bank run where investors sell off assets or withdraw money from bank accounts because they fear that the value of those assets will drop if they remain in FIs.

In absences of effective resolution regimes, during

financial crisis period in past, governments and authorities have often had to utilized taxpayer's money to restore the public confidence and to avoid contagion effect of falling FIs to the rest of the economy since FIs play a vital role in economies.

After considering the dynamic intermediary role of FIs in economies in the case of financial hardness's, it has been identified the necessity of resolving FIs mainly banks in a quick, efficient and orderly manner without undue interruption to the functions of the FIs and to the rest of the economy of the country.

After the financial crisis, policy makers and worldwide regulators took several measures to strengthen the stability and robustness of FIs against future shocks giving special emphasis to governance, risk management, capital and liquidity of FIs. Accordingly, certain measures taken can be listed as strengthen the quality and effectiveness of prudential regulation and supervision, set higher standards for systemically important institutions, develop suitable resolution regimes, strengthen international coordination of regulation and supervision particularly with regard to the regulation and resolution of global systemically

important FIs, establish or strengthening of deposit insurance schemes to ensure compensation payout for depositors in the case of bank failure, significantly enhance capital requirements of banks, impose new regulations to hold a minimum amount of liquid assets by all banks and to hold to an additional capital buffer by largest systemically important banks.

If a small bank fails, it may be possible to wind up its activities with minimal disruption through insolvency proceedings, particularly if deposit insurance is in place to protect insured depositors. However, FIs that are systemically important and interconnected cannot be liquidated through a normal insolvency without significant impact to depositors, clients and the financial system.

Without burdening to taxpayers to bail out these FIs, a mechanism needed to be put in place to orderly resolve these banks by assigning losses to bank's shareholders, secured and unsecured creditors rather than taxpayers in a manner that respects the hierarchy of claims in liquidation.

During the global financial crisis in 2007, many FIs in several countries had failed but most of the countries were not adequately prepared to deal with bank failures. When systemically important banks faced serious financial problems, only two options had been available to national authorities of those countries either let them fail with a risk of significant problems for households, businesses and the wider economy or bail them out with public money. With the lessons learned, leading global financial organizations, regulators and other relevant parties develop resolution regimes for banks and FIs with a wider range of options to deal with crisis, which allowed banks to fail in an orderly manner which maintains the critical functions that they provide to citizens and the economy without relying on public funds or tax payers' money.

2. What is Resolution?

Resolution is a way to manage the failure of a FI in a way that minimizes that impact to all interested parties without relying on public funds for solvency support. It involves the exercise of resolution powers by a resolution authority, with the aim of achieving the objectives of resolution.

In most of the time normal insolvency proceeding will be applied in a crisis of less significant FI. However, when bank failure would impact to the public interest, financial stability of the country and to real economy the resolution need to be applied.

Accordingly, the principal objectives of FIs resolution are to;

- Maintain the continuity of the critical functions of a failing bank
- Protect insured depositors
- Minimize the need of public funds by ensuring that losses are borne by shareholders and creditors of the failing firm, as they would be in insolvency
- Minimize the overall costs of the resolution and losses for creditors, where consistent with the other objectives

The resolution powers and tools permit authorities to achieve these objectives by safeguarding principal business activities and allowing losses to be absorbed without putting a bank into an insolvency procedure that would lead to the unexpected termination of its critical functions. Critical functions are activities performed by a bank for third parties, where failure would lead to disruption of services that are crucial to the functioning of the real economy and the financial stability. The criticality of functions of a bank depends on the size of the bank, its market share

and its internal and external interconnectedness and cross border activities. Accordingly, critical functions of bank include;

- Taking deposits from individuals and corporates
- Lending and loan-servicing for corporate and retail customers
- Clearing and settlement of payments or securities transactions
- Custody of assets
- Wholesale market activities (lending to and borrowing from financial counterparties)
- Capital markets activities, such as the issuance and trading of securities, related
- Advisory services or prime brokerage

However, there are FIs which cannot allowed to be fail considering the size, complexity and important services provided to the economy and closure of such FI cause severe disruption and cost to the economy are identified as too big to fail (TBTF) FIs. The costs to the economy are often referred to as negative externalities. The disorderly failure of a TBTF institution can give rise to significant issues to the economy such as,

- Disruption of payment and settlement system
- Reduction of liquidity in the financial system and economy
- Disruption to the provision of credit to borrowers
- Contagion effect
- Market disruptions due to defaults and price instability
- Economic downturn

Therefore, in such circumstances, governments have used public funds to avoid closing the institution, if no other measures were available to mitigate the impact of its disorderly failure.

3. Resolution Powers and Tools

Resolution should be initiated when a firm is no longer viable or likely to be no longer viable and has no reasonable prospect of becoming so. However, for effective implementation of resolution, planning for resolution should be started far before the implementation. The resolution regime should provide for timely and early entry into resolution before a firm's balance-sheet insolvent and before all equity has been fully wiped out¹. The standard and indicators identified by Financial Stability Board (FSB) to guide of non-viability of a firms meet the conditions and for entry into resolution can categorized under four main subcategories as given below,

3.1 Control and Management Tool

Control and management tools enable resolution authorities to take control of a bank in resolution and ensure that it is managed in a way that supports the resolution action such as,

- i. Remove and replace the Directors, Chief Executive Officer and Senior Management of FIs and take necessary measures recover monies from responsible persons for the failure.
- ii. Appoint an administrator to take control of and manage the affected FIs with the objective of restoring the firm, or parts of its business, to on-going and sustainable viability.
- iii. Operate and resolve the firm, including powers to terminate contracts, continue or assign contracts, purchase or sell assets,

¹ Definition of Key Attributes Assessment Methodology for the Banking Sector which was adopted by the Financial Stability Board in 2016

write down debt and take any other action necessary to restructure or wind down the firm's operations.

3.2 Ancillary Powers

Ancillary powers support to takes stay actions by creditors and counterparties of a bank in resolution include the power to:

- iv. Ensure the continuity of essential services and functions by requiring other companies in the same group to continue to provide essential services to the entity in resolution and any successor or an acquiring entity.
- v. Override rights of shareholders of the firm in resolution including requirements for approval by shareholders of particular transactions, in order to permit a merger, acquisition, sale of substantial business operations, recapitalization or other measures to restructure and dispose of the firm's business or its liabilities and assets.
- vi. Temporarily stay in the exercise of early termination rights that may otherwise be triggered upon entry of a firm into resolution or in connection with the use of resolution powers.

3.3 Restructuring Tools

Key restructuring tool and core element of resolution regime is the transfer powers which includes,

- vii. Transfer or sell assets and liabilities, legal rights and obligations, including deposit liabilities and ownership in shares to a solvent third party as a whole or partial, notwithstanding any requirements for consent or novation that would otherwise apply or merger.
- viii. Establish a temporary bridge institution to take over and continue operating certain

critical functions and viable operations of a failed FI. A bridge bank is a temporary bank established for the purposes of resolution and managed by the resolution authority or its appointees. It is used to maintain the deposits and other critical functions of a failed bank until they can be sold. Some resolution regimes specify a time limit for terminating the bridge bank. The residual failed bank is placed into liquidation and its shareholders and creditors whose claims have not been transferred to the bridge bank bear losses in the insolvency.

- ix. Establish a separate asset management vehicle (E.g.- subsidiary, trust, asset management company or any other establishment) and transfer to the vehicle for management and run-down non-performing loans or difficult-to-value assets with a view to maximizing the value of assets through an eventual sale or orderly wind down. This is typically used for the management of impaired assets or assets that are difficult to value at the time of resolution.
- x. Carry out bail-in² within resolution as a means to achieve or help achieving continuity of essential functions either by recapitalisation of a failing bank through the use of bail-in powers to write down liabilities or convert them to equity or by capitalising a newly established entity or bridge institution to which these functions have been transferred.
- xi. Impose a moratorium with a suspension of payments to unsecured creditors and customers (except for payments and property transfers to central counterparties and those entered into the payment, clearing and

2 A bail-in forces bondholders and other creditors of a company on the verge of failure to bear some of the burden by writing off debt they are owed or converting it into equity. This is in contrast to a bailout, the rescue of a firm by external parties like taxpayers. (Bail-in definition - Risk.net)

settlements systems) and a stay on creditor actions to attach assets or otherwise collect money or property from the firm, while protecting the enforcement of eligible netting and collateral agreements.

3.4 Closure and Liquidation

Resolution may also involve the use of insolvency procedures to close and liquidate parts of a failed bank,

- xii. Effect the closure and orderly wind-down of the whole or part of a failing firm with timely pay-out or transfer of insured deposits and prompt access to transaction accounts and to segregated client funds.

4. Resolution Planning and Recoverability

For resolution to be a credible option, the resolution authorities and bank need to carry out extensive work in advance such as preparing resolution plans that detail how the bank will be resolved and conducting regular resolvability assessments to ensure plans can be implemented. Therefore, it is required to have reliable resolution plans as well as resolvability assessments in order to take prompt and effective resolution action.

4.1 Recovery Plan

Recovery plans set out the measures that a bank would expect to take to restore its financial soundness in a range of severe stress scenarios, including market-wide stress. The Board of Directors and Senior Management of banks are responsible for preparation and maintenance of recovery plans subject to regular review by supervisory or resolution authorities. Maintenance includes regularly review and update recovery plan probably in annual basis or in the event of any material changes to the business structure and risk of the bank. A recovery plan is intended to serve as a guide for the recovery of the bank. Key elements of recovery plans are;

- i. Scope of recovery plan which identify bank's core subsidiaries, business lines and services.
- ii. Recovery triggers, the criteria that enable the bank to identify when an event has occurred or when a situation is developing that may require it to take a recovery action and escalation procedures for deciding how to respond when a trigger occurs. The main categories of indicator used as recovery triggers are capital, liquidity, profitability, asset quality, market base and macroeconomic indicators.
- iii. Stress scenarios describe the scenarios of severe stress that are covered in the plan.
- iv. Recovery options which set out a menu of actions the bank could take to affect a prompt recovery under each of the different stress scenarios.
- v. Internal and external communication that will be made if the bank takes recovery action.

4.2 Resolution Plan

Resolution plans detail the actions that resolution authorities³ will take if the bank is likely to fail. Therefore, the resolution authority is ultimately responsible for the resolution strategy and plan. However, banks play an important role in providing detailed information about legal and capital structure, its critical functions, details regarding deposits and liabilities and its interconnections, among other things and etc.

In general resolution plans are required to maintain for any bank that could be systemically significant or critical should it fail such as FI recognized as TBTF. However, some jurisdictions require

³ International Association of Deposit Insurers defined resolution authority as "A public authority that, either alone or together with other authorities, is responsible for the Resolution of Financial Institutions established in its jurisdiction (including resolution planning functions)".

resolution planning for a broader set of banks. For example, European Union, Hong Kong and Mexico require it for all banks, while Japan, Singapore and Switzerland resolution plans are required only for banks identified as systemically important in a domestic, regional or global context. In the United States, resolution plans are required for banks with assets of more than USD 250 billion.

The main objective of resolution plan is to facilitate the effective use of resolution powers to safeguard systemically important functions, with the purpose of making the resolution of any firm viable without severe disruption and without exposing taxpayers to loss. Resolution planning requires the development of a bank-specific resolution strategy and operational resolution plan for the purpose of get comprehensive about the bank and its critical functions to be prepared in advance for resolution to determine the intended actions to be taken and executable of the actions in the case of bank failures and to identify and address impediments to the bank's resolvability under its resolution strategy while avoiding any significant adverse consequences for the financial system and the real economy.

Evaluating the resolvability of is a key element of resolution planning for bank where resolution plan is developed. The regular review and updating of resolution plans by assessing the resolvability should be must and when there are material changes to the banks business it is necessary to review the resolvability of a resolution plan. Resolution plans do not require public disclosure due to containing of commercially sensitive information.

5. Resolving Cross-Border Banks

A failure of a bank which operate globally may cause sever damages to the global financial system as well as economics in which it operates. Even though the home country of the failed bank has in place an effective resolution regime it is challenging to implement over banking group in

different jurisdiction due to the complexity of group structure, pursuit of national interests and local ring-fencing. The challenges in resolving cross-border banking groups require effective resolution strategies and plans to deal with their potential failure and cooperation arrangements among different jurisdictions to facilitate coordinated planning and implementation of those strategies.

Therefore, it is necessary to have a sound domestic resolution framework with a clear legal basis that confers an adequate range of tools for effective resolution of a cross-border bank with clearly identified triggers effective governance structure, communication, arrangements for timely information sharing, safe-guard for creditors and shareholders, resolution funding and burden sharing.

6. Funding for Resolution

Resolution tools to be effective timely funding is very important. In an instance where a transfer from a failing bank to a purchaser the value of assets available for transfer is not sufficient to cover the deposits and any other liabilities that are transferred it may require additional financing. Further, in order to ensure the continuity of critical functions funds may be needed. A resolution funding means the financing that can be used to support the use of resolution powers and achieve the resolution objectives.

At an early stage of problems in a bank are detected corrective actions required by supervisors may be funded through the bank internal resources such as capital and liquidity. However, when banks face temporary liquidity shortages, banks may seek Emergency Liquidity Assistance (ELA)⁴ from the Central Bank. If a bank's viability is threatened

⁴ Emergency Liquidity Assistance means the provision of ELA by the Central Bank against adequate collateral in exceptional circumstances to a temporarily illiquid credit institution which cannot obtain liquidity through either the market or participation in monetary policy operations (emergency liquidity assistance Definition | Law Insider)

resolution of the bank required in order to ensure orderly market exit and/or continuity of critical functions based on the impact to the stability of the financial system. Resolution measures can be varied from simple deposit transfers to bridge banks and bail-ins and from small banks to systematically important banks. Hence it is crucial to build sufficient loss absorbency to be used in the first instance to facilitate resolution such as global systemically important banks are required to build Total Loss-Absorbing Capacity (TLAC)—fundamentally with regulatory capital, subordinated debt, and long-term debt liabilities that would facilitate their orderly resolution.

However, when internal sources are insufficient, external resources may be needed, including privately funded sources. A resolution regime primarily aims to fulfill funding need from private sources as far as possible. Financial Stability Board acknowledge that three broad types of arrangements can be consistent with and conducive to efficient resolution (a) privately (industry)-financed deposit insurance funds, (b) privately funded resolution funds, or (c) temporary access to government funds within a system/mechanism that allows ex post recovery from the industry of the costs incurred by the government in the resolution. The availability of private sources of funds such as privately operated deposit insurance fund and resolution fund depends on timing of a bank entry into resolution, extent of quality unencumbered assets, prevailing market condition and level of market confidence in outcome of resolution.

To the extent market access to funding is not available or inadequate, reliable public sector backstop mechanisms should be in place to enable the temporary funding needs of the firm to be met to the extent necessary to maintain the continuity of critical functions in resolution. The public sector backstop mechanism means, providing funds to a bank in resolution by public authorities

such as resolution funds, deposit insurance funds, resolution authorities, central banks, national treasuries or finance ministries.

The Central Bank can provide liquidity support to a bank in resolution as a lender of last resort

when financial stability considerations warrant it. ELA to a bank in resolution may be essential to be backed by an indemnity or a guarantee from the government with an objective to protect the central bank balance sheet.

There are positive arguments of using deposit insurance funds to support bank resolutions rather than not just for paying out depositors in liquidation subject to the net cost it would have incurred if the bank had instead been liquidated since main role of deposit insurance is to safeguard financial stability and reducing the risk of deposit runs similar to resolution. However, the deposit insurance fund can only use for resolution if the legal framework governing deposit insurance permits it by having mandate of both deposit insurance and resolution known as loss minimizer mandate.

In dealing with systematic risk, it is useful to have separate resolution fund which could be used to 'top up' the funding available from the deposit insurance fund. It is rather a new addition and only a few countries have adopted separate resolution funds by adopting different approaches regarding their funding. As example an ex-post resolution fund permits the authorities to assign public funds to resolution and triggers a mechanism to recover those funds from the industry at a later stage. Further, Ex ante resolution funds are becoming more common in Europe and contributions are being raised annually from all credit institutions primarily from bank authorized in the European Union. If funds available are insufficient for resolution it permits extraordinary ex post contributions from member institutions.

7. Operational Aspect of Resolution Measures

To make resolution measures operational it is requiring a range of supporting actions. These include some or all of the following, depending on the resolution strategy:

- Issue a public announcement that the bank is in resolution with a high-level description of the resolution measure.
- Target communications to explain the consequences of the resolution for specific classes of stakeholder, including depositors and other creditors, employees and market counterparties of the bank. This engagement may be carried out by the resolution authority in cooperation with the bank and, where relevant, the deposit insurer.
- Engage with international counterparts to ensure that relevant foreign authorities understand the nature and impact of the resolution action if any, or to coordinate interventions in relation to a cross-border group.
- Communicate with parties to financial contracts to ensure that any temporary stay on termination rights in those contracts is respected.
- Update and finalize valuations to verify the shortfall in net asset value that needs to be filled through loss allocation or external funding.
- Closely monitor the bank's liquidity to ascertain the rate of outflows.
- Suspend trading of the bank's shares and debt instruments.
- Remove and replace management considered responsible for the bank's failure

8. Necessity of resolution regime for Sri Lankan banks

Sri Lanka currently confronting the worst economic crisis that the country has ever face

since independence. Admits the dried-up foreign reserves, there is a severe shortage of food medicine, fuel and other essentials throughout the country due to limited or restricted imports. Sri Lanka's annual inflation climbed to an all-time high of 45.3 percent in June of 2022. Further, Sri Lanka is highly vulnerable in debt servicing and country's foreign debt amounts to \$51 billion in 2022 and became the first country in the Asia-Pacific region to default on foreign debt in this century. The ratio of gross public debt is as much as 110% of Gross Domestic Production and the ratio of debt service payments to Government revenue is increased up to 165%.

The political uncertainty, economic downturn, weak external and fiscal performance of Sri Lanka could hurt the operations of banks. The operating conditions of Sri Lankan financial institutions will likely remain weak over considerable period. After sovereign default banks are facing extremely high liquidity risk specially in foreign currency. Sri Lankan banks have limited access to cross-border funding as appetite in international markets for Sri Lankan debt are low.

The interbank market of Sri Lanka appears to have entirely dried up. Hence certain banks have to postponed payments on their foreign currency obligations due shortage of foreign currency.

Weak operating conditions, massive increase in interest rates and new tax reforms will increasing credit risk of Sri Lankan banks. Further due to adverse economic conditions loan recoverability of banks will become low and it reduces the quality of loan portfolios of banks and rises the non-performing loans. The high interest rates attract more deposits to the bank while enhancing interest cost and decline demand for credit.

Consequently, some rating agencies believe that there is a growing risk of Sri Lankan banks for

defaulting in their obligations, especially in the case of foreign currency, including deposits and trade finance products.

The banking sector continued to dominate the financial sector of Sri Lanka accounting for 63.3 per cent of total assets as at end 2021. Bank plays a critical role within the Sri Lankan financial system, by providing liquidity to the entire economy, while transforming the risk characteristics of assets.

Even though Sri Lankan banks are in extremely stress situation the existing acts, directions and regulations govern the banks and non-bank financial institutions of Sri Lanka could not provide adequate long-term measures to resolve such issues. Hence, to orderly manage the stress in banks and other non-bank financial institutions and ultimately maintain financial system stability of the country, it is crucial to introduce proper resolution mechanism for banks and other non-bank financial institutions of Sri Lanka. The international organizations such as World Bank and International Monetary Fund also emphasis the importance of strengthening of resolution framework for banks and other non-bank financial institutions of Sri Lanka.

References

1. Key Attributes of Effective Resolution Regimes for Financial Institutions, Financial Stability Board, 15 October 2014.
2. Key Attributes Assessment Methodology for the Banking Sector, Financial Stability Board, 19 October 2016.
3. Funding Strategy Elements of an Implementable Resolution Plan, Financial Stability Board, 21 June 2018.
4. Recovery and Resolution Planning for Systemically Important Financial Institutions, Financial Stability Board, 16 July 2013.
5. https://en.wikipedia.org/wiki/Financial_crisis_of_2007%E2%80%932008
6. https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/publications/annual_report/2021/en/12_Chapter_08.pdf

Strategic Assets Allocation for Foreign Exchange Reserves Management

W G R Harshapriya

Deputy Director
Risk Management Department



1. Introduction

Foreign Exchange Reserves Management is important to ensure prosperity and financial stability of countries which serve as a buffer to moderate economic shocks, maintain exchange rate stability and uphold the overall stability of the country. Efficient and effective management of these Foreign Exchange Reserves is essential for preserving a nation's wealth and supporting sustainable economic growth.

Strategic Asset Allocation (SAA) for foreign exchange reserves management involves determining how to allocate a country's reserves across different asset classes to achieve objectives like liquidity, safety, and return.

This article discusses the SAA, its importance, governance, main steps and objectives in SAA, establishment and defining a benchmark, and Sri Lanka's foreign exchange reserves management strategy since 2016.

2. What is Strategic Asset Allocation (SAA) and why is it important?

SAA is an investment strategy that involves setting long-term targets for the distribution of assets in a portfolio based on an investor's goals, risk tolerance, and investment horizon. In other words, the process by which an institution determines the appropriate neutral asset allocation at any point in time to achieve its long-term investment objectives.

The primary goal is to optimize the portfolio's performance while managing risks. This approach typically involves dividing investments among various asset classes, such as stocks, bonds, and real estate, in predetermined proportions. The allocation is periodically reviewed and rebalanced to stay aligned with the investor's objectives and market conditions.

SAA needs to be reviewed periodically, with a long-term view. SAA is neutral to capital market's short-term changes.

According to the study done by Gary P. Brinson, Brian D. Singer and Gilbert L. Beebower (1991), which was published in Financial Analysts Journal, found that on average 91.5% of the return can be explained from the investment strategy or the assets allocation strategy. Therefore, SAA plays a major role in any investment portfolio including foreign exchange reserves portfolio.

The critical ingredient for SAA includes defining investment objectives and determining risk tolerance, adding investment beliefs, forecast and assumptions on capital markets with the overall direction of the economies that are planned to invest.

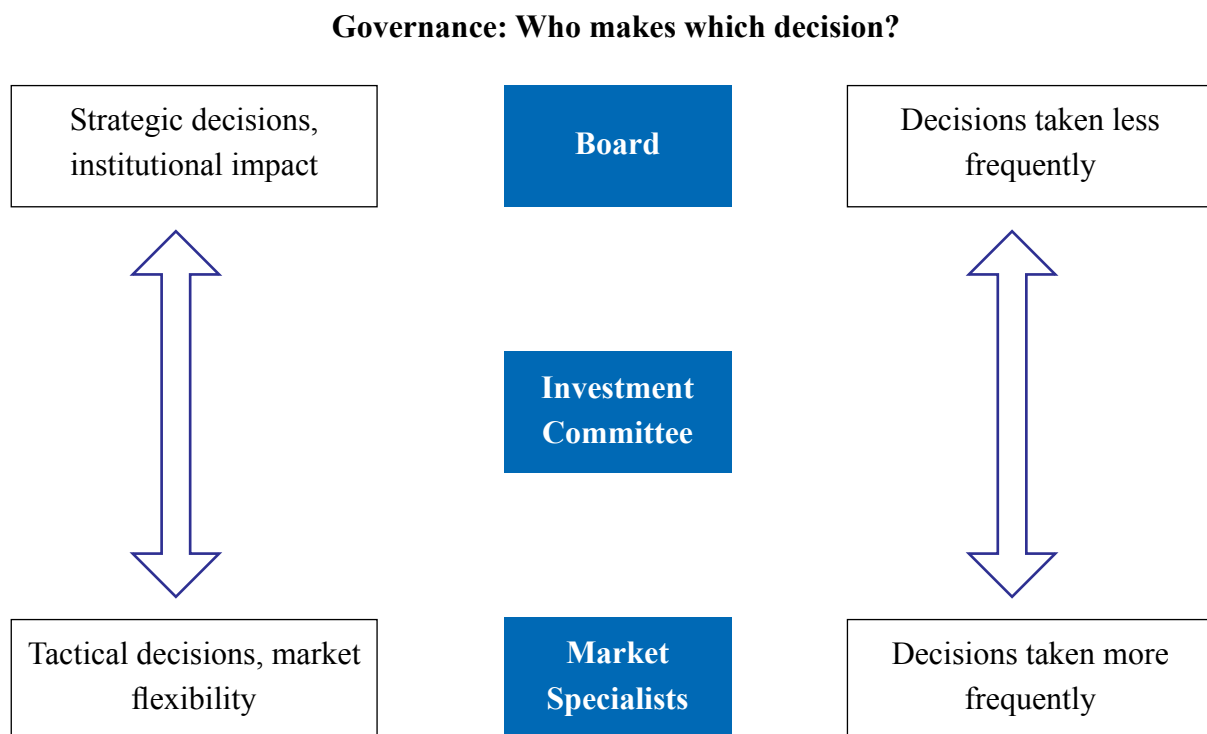
3. Governance and Delegation of Responsibilities

The governance structure of the strategic asset allocation process typically involves several

key components of which are Governing Board, Investment Committee, Chief Investment Officer, Investment Management team, Risk Management and Compliance, Consultant and advisors, if any, and performance review.

The **Board** usually takes strategic decisions which are in long-term nature define the return objectives and risk tolerance level that can be accepted. Further, they are responsible for assets allocation strategies, mainly focusing on which assets classes to include as eligible assets classes in SAA. While the Investment Committee recommends investment policies, making high level decisions on which may be delegated by the Board. This committee usually includes senior executives, experts from outside and selected board members in some cases. These decisions taken by the Board and the Investment Committee have an Institutional Impact on Foreign Exchange Reserves Management.

Figure 1 : Decision making Structure



The **market specialists** include the Chief Investment Officer (CIO) who manages the implementation of assets allocation strategies set by the board and or Investment Committees, including selecting and managing internal investment managers while ensuring the adherence to policies and procedures.

Further, the **Risk Management and Compliance function** ensures that the portfolio adheres to risk tolerance levels and requirements and constraints set by the Board. This team monitors and reports on risk exposure and compliance with investment guidelines.

If any additional insights and expertise are required, **Consultants and Advisors** external experts who provide advice on strategic asset allocation, market conditions, and investment opportunities, supporting the investment committee and CIO with specialized knowledge could also be hired on need basis.

Finally, the **Performance Review** involves regular evaluation of the Foreign Exchange Reserves Management performance against benchmarks and goals, often involving periodic reports to the investment committee and adjustments to the strategy if needed.

A proper governing structure ensures a well-defined and disciplined approach to managing strategic asset allocation.

4. Steps in the SAA process and its key input ingredients

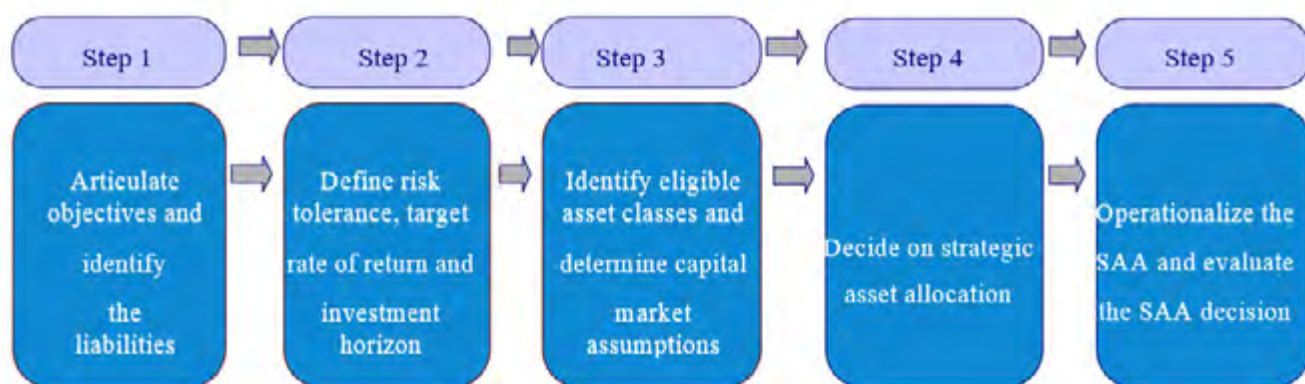
4.1 Reserves Management Investment Objectives

The main objectives of reserve management are capital preservation, provision of liquidity and return/ income generation.

Capital Preservation in strategic asset allocation, particularly for foreign reserves management, focuses on preserving the value of the reserves and minimizing the risk of loss. This means choosing investments that are unlikely to lose value or are backed by high-quality, top rated financial instruments with higher credit quality issuers. By investing in financial assets with high credit ratings such as central government, state governments and regional governments from stable countries, supra national institutions, or highly rated corporate issuers, reduces the risk of default and ensures the investment's safety.

Provision of Liquidity is also an important objective in foreign reserve management as a certain number of assts should be able to liquidate

Figure 2 Steps in the SAA process



quickly without incurring substantial losses if the need arises. Therefore, it is required to ensure that a portion of the reserves are held in liquid assets that can be quickly converted to meet short-term obligations and emergencies. The market depth of the assets that have a deep and active market is also a prime consideration to ensure that they can be sold easily without affecting their price significantly.

Income Generation in strategic asset allocation for foreign reserves management focuses on achieving a reasonable and sustainable return from the reserves while balancing safety/capital preservation and liquidity. Therefore, subject to achieving the first two investment objectives, earning a sufficient return will be set, which is often expressed as a percentage that aligns with the country's financial needs and objectives, or in terms of relative terms in comparison to a benchmark return. Since the risk return trade off needs to be determined, selecting investments that provide an acceptable return relative to the risk involved is important. Higher returns accompanied by higher risk, so the allocation should balance the potential return with the safety of the investment.

Identify the liabilities that are planned to honor through maintenance of foreign exchange reserves need to be identified, for example possible gap in trade account, short term foreign exchange loan obligations, contingency for foreign exchange market intervention, remaining long term foreign exchange loan obligation and excess reserves, if any which can be invested to earn additional return with comparatively higher risks investments subject to certain constraints applicable to SAA.

4.2 Define Risk Tolerance

Risk tolerance is about knowing where the line is drawn between acceptable and unacceptable outcomes. In the context of strategic asset

allocation for foreign reserves management, risk tolerance refers to the degree of risk that an entity, such as a government or central bank, is willing and able to accept in pursuit of achieving its return objectives. It determines how much risk the reserve portfolio can take while meeting the investment objectives of safety, liquidity and return. Risk tolerance depends on the expected funding and withdrawal pattern of the reserve portfolio, while concerns of decision makers need to be translated to quantifiable risk measures. This should ideally be reflected in institutions' ability to take risks, and not the Board's or decision maker's willingness to tolerate risk.

When quantifying risk tolerance Value at Risk (VaR) and Conditional Value at Risk (CVaR) can be used. VaR calculates the maximum expected loss over a given time with a certain confidence interval. For example, VaR can be estimated as a maximum loss of \$X over one month with 95% or 99% confidence. While CVaR evaluates average loss which exceeds the VaR threshold. It offers insight into the tail risk beyond the VaR estimate.

4.3 Defining Risk Tolerance at Central Banks

Central banks are usually considered as risk-averse investors; hence risk tolerance is typically defined as no negative return will be realized with a defined level of confidence interval. For example, no negative return during a three/five years period with 95% confidence can be the risk tolerance level for a Central bank or Government.

4.4 Investment Horizon

The investment horizon is the period over which the fund is expected to be held and used, and over which returns and risks should be measured and managed. It is a crucial factor in determining the appropriate asset allocation strategy, because the longer the time horizon, the higher the risk

tolerance, Central Banks can take. With a longer time horizon, higher risk can be afforded as short-term market fluctuations can be recovered.

For countries with short term liabilities, they may need to assume short time horizon which leads to lower risk tolerance, as they need to prioritize safety and liquidity over return. Shorter horizons typically involve a higher allocation to low-risk, income-generating assets such as government bonds or cash equivalents to preserve capital and ensure funds are available when needed.

Overall, the investment horizon helps define the risk tolerance and asset allocation strategy, guiding how assets are distributed among various classes to align with the time frame for achieving its investment objectives.

4.5 Eligible Asset Classes

The selection of eligible asset classes is an important part of the asset allocation process. It involves identifying broad categories of investments that will be included in a portfolio to meet its investment objectives. When selecting suitable assets classes, the following have influence on eligible assets classes.

- Investment objectives and risk-return considerations; Asset classes are selected based on the investor's risk tolerance, investment horizon, and return objectives. This ensures the portfolio supports the investor's financial goals.
- Staff capabilities and skill mix; the knowledge and expertise of market specialist team need to be evaluated when selecting eligible assets classes as they must familiarize with the risk that specific assets will bring into the portfolio and effect on overall diversification strategy.
- Sophistication of portfolio and risk management infrastructure; the risk management team

also should be able to evaluate independently whether risk arising from eligible assets classes are within the overall risk tolerance level defined by the central bank.

When selecting eligible asset classes, the emphasis should be on how they affect the overall portfolio's risk and return, rather than focusing on the risk of individual asset class in isolation.

Accordingly, typical investments universe that are included in central banks foreign reserves portfolio are.

- Cash & Money-Market Instruments,
- Bonds issued by Government, Government Agencies, Supranational institutions,
- Mortgage-Backed Securities and Covered Bonds.

Equities are usually not included in the investment universe, as inclusion of equities will breach risk tolerance level of most of the central banks.

4.6 Decide on Strategic Assets Allocation

Since assets allocation decisions are the most important determinants of investment success, from the eligible asset classes, an optimal combination of assets class should be selected while satisfying the investment objectives of the central banks. strategic asset allocation may aim to generate risk and return expectations that are forward-looking. However, the expected returns to be used within foreign exchange reserves management at the strategic level should be generated independently, of those macroeconomic assessments that are the basis for the central bank's monetary policy decisions. Superior investment performance should not rely on non-public information.

The central banks that prioritize risk-return efficiency in either local or foreign currencies often

establish a strategic asset allocation strategy after optimization of risk and return expectations using mean variance analysis or any other statistical model that they wish to use.

4.7 Benchmarks

Suitable benchmarks need to be selected for each assets classes to identify and measure the risk that is expected from the respective assets classes while to measure the relative performance of the foreign exchange reserve portfolio. There can be several benchmarks for each assets class depending on the objectives of the sub portfolio. The chosen benchmarks should closely match the asset allocation mix and investment objectives of the portfolio. It must represent the same risk-return profile as the portfolio. By comparing portfolio returns to the benchmark, the Board/investment committee can assess whether their asset allocation is effective or requires adjustments.

4.8 Evaluate the SAA decision

Evaluating the Strategic Asset Allocation decision involves assessing whether the chosen allocation effectively meets the foreign reserve management objectives, this evaluation may be conducted annually or more frequently, if there is any significant changes in the assumption made at the time of designing the SAA. Further, evaluation should be conducted in terms of risk return efficiency, Performance vs. Benchmark, adaptability to changes in the market conditions economic forecasts, or shifts in investment objectives.

By evaluating the SAA, the Board/investment committee ensure that their portfolio remains on track to meet long-term financial objectives while adapting to changing circumstances.

5. Sri Lanka experience with SAA

Foreign Exchange Reserve Management practice was changed since 2016 with the engagement of the Reserve Advisory and Management Programme (RAMP) of the World Bank which provides advisory services enabling efficient management of foreign currency reserves and other investment advice. Accordingly, SAA model was adopted by Central Bank of Sri Lanka (CBSL), in order to invest its foreign reserves based on the liability structure of the CBSL. Similar to other central banks, the main objectives of reserve management were CBSL capital preservation, liquidity requirements, income generation while adhering to the risk tolerance level acceptable to the bank.

Foreign reserves investments are carried out in line with the Investment Policy Statement and the Foreign Reserves Management Guidelines, as revised and approved by the Monetary Board. These investments are supervised by the International Reserves Investment Oversight Committee (IRIOC), with a focus on the key objectives of safety, liquidity, and returns.

Foreign reserves are held in several major currencies and are primarily invested in Fixed Income Securities (FIS), Money Market instruments, and Gold. The FIS portfolio includes highly rated government securities, government-backed securities, as well as securities from government agencies and supranational institutions. For reserve management, transactions conducted by the International Operations Department are carried out with counterparties viz. central banks and top-rated commercial banks.

The performance of its reserve management activities is evaluated daily using a total return approach. The returns from Fixed Income

Securities and Money Market investments are compared against their respective benchmarks, as outlined in the SAA approved by the Governing Board. This benchmark comparison helps assess the effectiveness of portfolio management, determining whether the investment objectives are met in line with the target levels.

Accordingly, foreign reserve management of Sri Lanka is also follows strategic assets allocation model which has the benefits of diversification of foreign reserve across different asset classes, aligning the portfolio with CBSL's long-term financial objectives, ensuring a balanced approach to risk and return over time, minimizes the need for frequent adjustments based on short-term market movements, promoting a disciplined investment strategy, stable performance by allocating assets strategically.

6. Conclusion

Effective management of foreign exchange reserves is crucial for maintaining the financial stability of the country and supporting its objectives. Strategic Asset Allocation provides a structured approach to optimizing the risk-return profile of these reserves, ensuring that they are allocated in a manner that aligns with the overarching goals of liquidity, safety, and return.

Through strategic asset allocation, reserve managers can construct a well-diversified portfolio that balances these objectives. By incorporating a mix of asset classes, including government bonds, corporate securities, and alternative investments, they can mitigate risks while enhancing potential

returns. Additionally, strategic asset allocation facilitates a proactive response to market conditions and evolving economic landscapes, allowing for adjustments in allocation based on changing risk perceptions and market opportunities.

In conclusion, a robust strategic asset allocation framework not only supports the primary objectives of foreign exchange reserves management but also enhances the resilience of foreign exchange reserves against financial shocks. By adhering to a disciplined and well-considered allocation strategy, reserve managers can better safeguard national financial stability and support broader economic goals, ultimately contributing to a more secure and predictable economic environment.

References

- Carlos B et al; Risk Management for Central Bank Foreign Reserves, ECB, 2004
- Dmitry Pevzner, Portfolio Tranching and Currency Composition, The World Bank, 2017,
- Gary P. Brinson, CFABrian D. Singer, CFAGilbert L. Beebower, Determinants of Portfolio Performance II: An Update, Financial Analysts Journal Volume 47, Issue 3, 1991 doi.org/10.2469/faj.v47.n3.40
- The World Bank Treasury, Inaugural RAMP Survey on the Reserve Management Practices of Central Banks, The World Bank, 2019
- The World Bank Treasury, Central Bank Reserve Management Practices, The World Bank, 2020
- The World Bank Treasury, Reserve Management Survey Report 2023, The World Bank, 2023

What are the dynamics behind pyramid schemes that cause people to fall victim to such schemes?



N D L Hemachandra, Senior Assistant Director, Financial Consumer Relations Department

Introduction

Combating pyramid schemes has become an emerging issue over the past few years and reporting such schemes to the law enforcement authorities has been intensified. The objective of this article is to address the knowledge gap in identifying pyramid schemes to avoid people becoming victims of such schemes. Therefore, it is worthwhile to understand the types of pyramid schemes and their operational structure and the payment system, how the pyramid schemes continue, the importance of prohibiting pyramid schemes and the responsibility towards the public to combat pyramid schemes.

The features of a pyramid scheme have been defined in Section 83C of the Banking Act, No. 30 of 1988. As identified in law, pyramid schemes consist of paying benefits based on the increase in the number of participants in the scheme or the increase in the contributions made by the participants in the scheme. If a purported scheme has at least one of the features mentioned above, the said scheme falls under the definition of a prohibited scheme, which is punishable in terms of law. The law further defines that no person shall directly or indirectly initiate, offer, promote, advertise, conduct, finance, manage or direct a pyramid scheme. On

this premise, in a pyramid scheme, logically, it is difficult to distinctly identify victims from the wrongdoers, as in other criminal offenses. The reason for this is that in order to earn the benefits of the scheme, one must actively promote it while simultaneously investing in the scheme. Therefore, in a pyramid scheme, a participant plays the dual role of the victim as well as the promoter.

Types of pyramid schemes

Based on the marketing strategies on forming pyramid schemes, those schemes can be classified as either organizer-dominant or participant-dominant. In the former case, participants must invest in the scheme and/or make others to join, while in the latter case, the organizers target vulnerable groups, such as social media influencers, friends, family, celebrities, or anyone with a customer base. In both participant-dominant and organizer-dominant schemes, perpetrators prefer to use informal methods to promote pyramid schemes, as it is less likely that a known person will provide misleading or false information or act dishonestly toward someone who is close to them. Even after pyramid schemes are scammed, participants are reluctant to complain to the law enforcement authorities due to embarrassment or a propensity to resolve the issue

within the same network. Since a pyramid scheme is marketed inside a close-knit community, it is easy to integrate into society without causing suspicion when it is promoted in an informal manner.

Although pyramid schemes are differentiated according to how they formed a scheme, both schemes may continue to use the same tactics when it comes to earning money. Selling goods like watches, water filters, and solar panels was the most common way to advertise pyramid schemes in the past. It was noted that these products were extremely expensive. The products of pyramid schemes have been diversified to cryptocurrencies, selling plants and offering online job opportunities. Changes in the pyramid schemes have not been limited to introducing new products but also the mode of transactions as well. With technological innovations, the method of transaction also changes from fiat currency to digital currency as pyramid schemes are transferred to digital platforms over time. The majority of promoters conduct transactions using digital currency, namely USD Tether (USDT). The perpetrators may believe that the public may not notice whether or not there is a “t” at the end of USD, even when no precise explanation for their preference is provided. Participants might believe that USDT and USD are interchangeable, whereas USDT stands for cryptocurrency and USD denotes fiat currency. The public has been informed through press releases that cryptocurrencies are not recognized as legal tender in Sri Lanka, where the Central Bank of Sri Lanka is the only entity with the power to issue currency. Additionally, the public awareness campaign concerning cryptocurrencies highlights the fact that they are not regulated in Sri Lanka and, as a result, do not have the regulatory protections needed to secure payments and reduce volatility. Pyramid schemes are increasingly moving from

digital money to crops and service bundles. The public should be aware of the characteristics of the investment plan in which they are investing, regardless of the investment opportunities with the promise of high return or the methods used to advertise them.

Operational structure of a pyramid scheme

A pyramid scheme has a structure where the number of participants decreases as one moves up the layers from bottom to top, as depicted in Figure 1. This is because the money that new members bring into the system or that existing members contribute to the system is used to pay the upliners. Therefore, in a pyramid scheme, participants in the bottom layers will always lose money while the participants in the top layers make money. To facilitate the flow of money from bottom to top, the participants must be coded vertically across the tiers. The mechanism of coding participants at each layer has been evolving with technology. As technology has advanced, perpetrators have used software for coding participants at each tier and this coding has been done without the intervention of the participants. But in earlier days, the participants needed to fill out a form manually, providing the details of the introducer to the scheme. With the advancement of technology, pyramid schemes are now advertised on digital platforms through the free download of apps from the Apple Store and Google Play Store. These apps are user-friendly, but to proceed further, a prospective participant must provide the login information of an existing participant who first introduced them to the scheme. This information could be provided as a link to click, a promotion code, or a referral code. These linkages, referral codes, and promotion codes have been used to code current participants with newcomers and also facilitate the flow of funding.

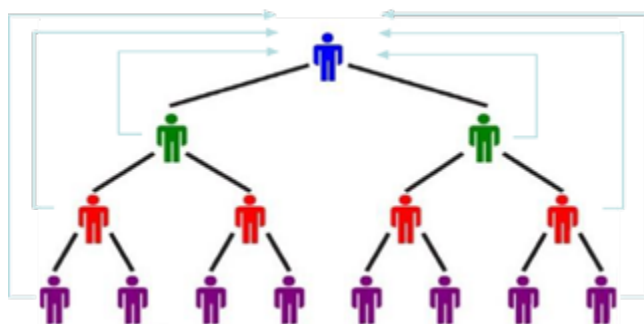
Figure 1 : The structure of a pyramid scheme



Source: Google images

In the past, pyramid schemes had a straightforward operating structure since they were divided into two parts (left and right) to continue progressing. As a result, the money has flowed from bottom to top along with how the participants are corded, as shown in Figure 2.

Figure 2: Old version of pyramid schemes



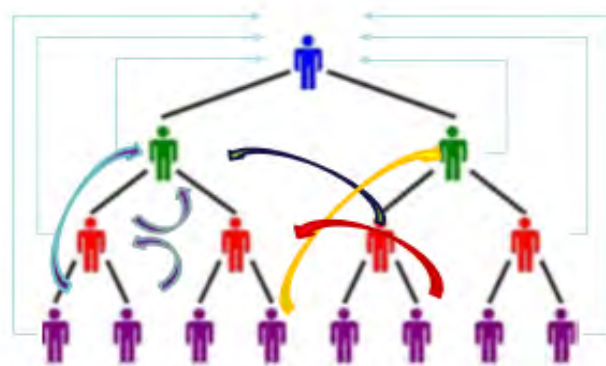
Source: Google images

The operational structure of pyramid schemes has grown more complex due to new developments in payment methods and products offered through them. Figure 3 more clearly illustrates how the payments were interconnected rather than flowing from bottom to top straightforwardly.

Payment schemes of a pyramid scheme

The promoters allegedly claimed that the scheme would offer monetary rewards, overseas excursions,

Figure 3: New version of pyramid schemes



Source: Google images

hotel packages, and sponsored recreational events in order to operate at the grassroots level, make the scheme appealing to the public and conceal its illegality. The promoters allegedly promise a variety of benefits, including direct commission, indirect commission, daily commission, bonus commission, and so forth, in an attempt to persuade the public to increase their investment in the illegal schemes and attract more people into the scheme. However, participants quickly discover that these benefits are merely empty promises.

Perpetrators convince the public that the participants were highly paid based on the profits of the purported company and the certificate of incorporation of the company mostly can be seen on social media. When the certificate of incorporation is available in the public domain, people are under the impression that the said company is supervised and investments in such companies are secured. A company's registration with the Registrar of Companies does not mean that the Registrar of Companies has any control over its operations. Despite the registration of the company, the payment structure of the pyramid schemes has to be identified, as the promoters try to disguise the features of the pyramid schemes and make the scheme apparently legal.

Disrupting the flow of funding to pyramid scheme

If there is no demand, a pyramid scheme cannot be initiated or maintained. According to research on the rise in pyramid schemes in Albania, it was revealed that there was a need for credit in the nation, so criminals utilized their informal connections such as friends, relatives, and acquaintances to start an unofficial credit market. The need for money is the driving force behind engaging in pyramid schemes, while there may be other variables that existed in Albania's rise in pyramid scams. When a nation is going through a recession, a pandemic, or a shift from a government-controlled to a market-driven economy, there can be a need for money. The need for money can be aggregated from the socioeconomic circumstances of the nation. When there is a need for money in the community, criminals use this as a chance to persuade others that they have investment opportunities that can meet those needs.

The second question is: how can perpetrators create pyramid schemes that appeal to the public when money is needed? These pyramid schemes should be able to attract the public's attention by providing a higher return on investment than what is offered in the formal financial sector, which includes licensed banks and finance companies. Apart from the high return on investment, pyramid schemes have traits of multi-level marketing and are marketed as online trading, training packages, and investment opportunities. As a result, multi-level marketing and pyramid schemes are frequently misconstrued. Thus, the public believes that they were making investments in companies that carry a formal business.

The distinction between multi-level marketing and pyramid schemes has been explained simply

on government websites, such as those run by the Competition and Markets Authority in the United Kingdom and the Federal Trade Commission in the United States of America. The explanation emphasizes how product sales would come after finance transactions in a multi-level marketing program. A sales commission is paid to the seller based on the quantity and value of sales. Therefore, the participant in multi-level marketing is not the end user but rather an agent of the company. Hence, there is no necessity to buy the product in multi-level marketing before selling it to another person.

The seller in a pyramid scheme needs to first purchase the product before selling it to a new member. Therefore, the main objective of a pyramid scheme is financial gain rather than the sale of products. There is no market for the product because the participants in the pyramid scheme are focused on financial gain rather than the product, and the prices for these products are exorbitant. Since pyramid schemes have a short life span, these businesses may only function as shell corporations by posting their certificate of incorporation on their websites.

Importance of prohibiting pyramid schemes

The 1996–1997 Albanian experience made clear that a government cannot overlook the crime of pyramid schemes because of the serious harm that may cause to both individuals and society as a whole. Pyramid schemes were said to have dramatically increased in Albania between 1996 and 1997, with the nominal obligations accumulated by these schemes amounting to over half of the nation's GDP. In the end, Albania experienced social unrest, political instability, and extrajudicial killing as a result of the growth of pyramid schemes.

On this premise, the government must intervene in a timely manner if anyone directly or indirectly

initiate, offer, promote, advertise, conduct, finance, and manage pyramid schemes and act promptly to take the necessary regulatory action. The use of digital media to promote pyramid schemes allows perpetrators to reach a wide audience and therefore it is necessary to take regulatory steps to monitor social media. The task of monitoring digital media would be easier if the law enforcement authorities use artificial intelligence and machine learning techniques. Since pyramid schemes are spread through word-of-mouth among friends, family, and close associates it may be challenging for the law enforcement authorities to step in at the early stages of a pyramid scheme. However, as a step forward, the public should be given resources like videos or surveys to evaluate the risk of a certain plan before investing it.

Responsibility of the public towards combating pyramid schemes

The public need to be vigilant before investing money in an investment plan. If a person invests in a pyramid scheme it is guaranteed that the said person will lose money and also be subjected to regulatory actions even if the promoters claim that it is legal and registered under the appropriate authority. Therefore, it is the duty of every citizen to be vigilant about the pyramid schemes and assist the law enforcement authorities if it was promoted by word of mouth. It was observed that the allegedly registered companies either directly or indirectly advertise a variety of products as business possibilities, including online training packages and trading opportunities. A company's economic activities are not given any legitimacy by

just registering it with the appropriate authorities; consequently, in addition to the registration, the public must consider the products' legality by examining their features.

Conclusion

Like any other business model, a pyramid scheme requires marketing to the public in order to reap all of its benefits. In order to draw money into pyramid schemes, perpetrators convince the public or potential investors that they will get higher returns on their investments. The pyramid scheme's administrators or advocates publicize the participants' lavish spending habits while asserting that they quickly increase their returns through the alleged plan. Only a small number of participants at the highest levels receive larger benefits than the majority of investors, which is a common characteristic of pyramid schemes. Nonetheless, the publicity around these awards will encourage the other participants in the scheme to believe that they will also gain in the same way and to the same degree. Participants may continue to promote the program while remaining composed and not complaining to law enforcement authorities in the hopes of receiving larger prizes in the future. These characteristics alert participants to the need to be vigilant for such schemes. To combat pyramid schemes, law enforcement agencies must take action against those who break the law while also educating the public on how to spot the signs of pyramid scams. Further, the public is also cast upon with a duty to be vigilant about the prohibited schemes and also assist the law enforcement authorities when required.

Leveraging Circular Economy Strategies for Economic Revitalisation



R M G S Krishantha, Senior Assistant Director, Statistics Department

“The Circular Economy teaches us how to use what we took from nature for as long as we can, how to reuse, or recycle them to get new resources, and so on, in cycles.”

- United Nations Development Program’s writings on Circular Economy, 28.12.2022 -

Reshaping the conventions with Circular Economy (CE)

The concept of CE has surged in popularity in recent years as a viable alternative to the current ‘Linear Economy’ model. Unlike the Linear Economy, which follows a take-make-dispose

pattern, wherein resources are extracted, products are manufactured and disposed after the usage, CE focuses on a regenerative approach. The ultimate objective is to minimise resource input, waste, emissions, and energy leakages through long-lasting design, maintenance, repair, reuse, sharing, remanufacturing, refurbishing, and recycling activities. Moreover, waste, and pollution are aimed to be designed out, and priority is given to renewable energy sources. Unlike most of the alternative models that may lead to degrowth under the effort of reconciling the economic growth with negative externalities, CE is discussed within the framework of economic development, which benefits businesses, society, and the environment, while aiming to decouple growth from the consumption of finite resources.

Figure 1: Circular Economy Model



Source: European Parliament Research Services

The appeal for sustainable resource extraction

Resource extraction at disproportionate levels was instrumental in the industrialization of developed countries, providing essential raw materials and energy sources that fueled economic growth and

technological advancement. As developed nations pursued economic growth, global natural resources were overexploited, leading to significant carbon emissions, air pollution, and environmental degradation. Consequently, all countries have had to contend with the adverse effects of climate change and global warming. Even at current levels, high-income countries use six times more materials per capita and are responsible for ten times more climate impacts per capita than low-income countries (UNEP, 2024). Therefore, it is crucial for developed nations to lead the global shift toward sustainable development by adopting transformative concepts such as CE.

The extraction of raw materials globally had tripled by 2017 since 1990 and could double again by 2060 if the corrective policy measures are not implemented (UNEP, 2020). Further, in the backdrop of the total global population being projected to exceed 10 billion in the mid-2080s (UN, 2024), global demand is also expected to rise rapidly. Hence, concerns are raised about supply risks as most of the input raw materials are non-renewable, and the rate of discovering new raw material deposits has been diminishing over the years. This highlights the challenge of creating long-term global wealth from the current linear economy. Moreover, it is inevitable that even the global production powerhouses had to depend on imports due to the asymmetrical distribution of raw material deposits. The fragility of global supply chains has long been a topic of discussion for numerous reasons and has gained even greater prominence in light of the global pandemic, geopolitical tensions, and recent disruptions in shipping routes, particularly in the Red Sea. At the same time, price volatility levels for primary materials, as well as agricultural output in the 21st century, largely remain at elevated levels with higher volatility. Hence, the firms are under tremendous pressure to improve their resource efficiency levels, to remain competitive and cater to the growing demand.

Realising the benefits of CE

While the adoption of CE practices is still in its early stages, the experiences of several countries, notably in Europe, have shown promising outcomes. As an economy, CE can stimulate economic growth by improving resource efficiency and productivity, fostering innovation, creating new business opportunities, generating employment, increasing competitiveness and resilience in the economy, etc. Further, introducing technology and innovations would increase material productivity, thereby positively impacting economic development, probably beyond the effects of circularity on specific occasions. According to Lacy & Rutqvist (2016), CE could generate US dollars 4.5 trillion in additional economic output by 2030 and as much as US dollars 25 trillion by 2050. Further, as per studies by Donald et al. (2015), Busu (2019), and Horbach & Rammer (2019), there is evidence that CE implementation creates economic growth in economies. Moreover, in the extreme scenario of deploying policies most ambitiously, it is estimated that the reduction of real GDP in 2030 will only be around 1 per cent below baseline projections, yet the level still be 13.5 per cent higher compared to 2021. In terms of the labour market, the transition to a CE creates skilled as well as unskilled employment opportunities across various sectors, including waste management, recycling, remanufacturing, repair, and sustainable product design. Further, the longer the product is in the loop, the longer the involvement of labour, which is a basic characteristic of CE.

Beyond economic benefits, CE offers a wide range of environmental and social advantages. CE helps with climate mitigation by reducing pollution associated with resource extraction, manufacturing, and waste. Further, reducing exposure to harmful pollutants, air, and water ensures improved health and well-being. Moreover, social benefits from job creation and support for local businesses, as

well as consumer benefits from providing access to more durable, repairable, and value-for-money products, can also be highlighted. In a broader sense, CE implementation offers an action plan for achieving Sustainable Development Goals (SDG), where the 12th goal: Sustainable Consumption and Production, is directly linked to CE.

CE: A business opportunity

As CE offers a range of benefits to all the agents in the economy, successful implementation requires a collective effort. Consumers play a crucial role in shaping demand for products and influencing business practices. By making sustainable purchasing decisions, practicing conscious consumption habits, embracing sharing and collaborative consumption, supporting recycling efforts, etc., consumers can drive this demand.

Further, businesses are essential drivers of CE as they design, produce, distribute, and consume goods and services. It should be understood that CE does not seek to alter the profit maximization framework of businesses. Instead, it proposes a different approach to achieving sustained competitive advantage, while simultaneously addressing environmental and socio-economic challenges. CE also involves leveraging surplus

resources by extracting maximum value from each unit of input, leading to monetary savings, wealth creation from waste, enhanced reputation with low material footprint and regulatory compliance, etc., benefitting the corporates. However, under CE, the profit motive shifts to a longer-term horizon with enhanced customer satisfaction and loyalty, reduced warranty claims and after-sales service costs, improved competitiveness, brand differentiation, etc. Hence, businesses can lead by example by integrating CE principles into their business processes. At the design stage, emphasis could be placed on products that optimise durability, repairability, recyclability and upgradability. Further, procurement and supply chain management also play crucial roles by facilitating closed-loop supply chains, reverse logistics, and prioritising suppliers that adhere to environmental and sustainability standards. More importantly, the production process should focus on cleaner production applications, optimising resource efficiency and minimising waste generation, material substitution, and improving energy and water conservation. Moreover, companies can explore outsourcing, leasing, sharing platforms, product-as-a-service businesses, joint product development, investing in research and technology, etc. It is evident that a diverse range of companies

Figure 2: Circular Business Model



Source: Circular economy business models for the manufacturing industry

use different forms of CE strategies and are able to create more value over time.

At the policy level, identifying, quantifying, and providing an action plan for the key product value chains that have a potential and substantial impact on the development of CE is essential in the implementation process. Further, circular principles can be extended to the city or regional level by integrating them into urban planning and development. In the meantime, the tax framework is expected to shift from labour towards raw materials and waste. Moreover, the governments can provide funding, incentives, and support for research and pilot projects in CE initiatives. Further, multinational and civil society organisations can also collaborate with governments in this regard. Accordingly, many economies, including industrial powerhouses such as the EU, China, Japan, and South Korea have shown their commitment towards CE by enacting legislation to promote these strategies. The EU has selected seven sectors as main value chains, electronics and ICT, batteries and vehicles, packaging, plastics, textiles, construction and buildings, food, and water and nutrients. Accordingly, an array of legislative proposals such as industrial emissions directive, substantiating green claims, industry-led industrial symbiosis reporting and certification, eco-design requirements, plastic waste reduction measures, sustainable built environment, etc. are being introduced.

However, the required behavioural changes at all levels, securing investments, and aligning regulations and policies with CE objectives may be challenging and demand a coordinated approach. Especially, the developing economies, which mostly rely on extractive industries, had to overcome financial constraints, lack of awareness, and limited economic resilience, in implementing CE.

CE to foster Sri Lanka's growth

Adopting circular economy practices enables Sri Lanka to maximise the efficiency of its resources by promoting recycling, reusing, remanufacturing, etc., thereby ensuring long-term resource availability and reducing the reliance on imports. Moreover, CE practices that promote the use of renewable energy can significantly reduce the country's dependence on fossil fuels and lower its import bill. Further, implementing more efficient manufacturing processes would help Sri Lanka to reduce production costs in the long-run and help to improve its competitive position in exports.

In addition to tackling resource constraints, the world's regulatory framework, especially in the EU, a major export destination of Sri Lanka, is swiftly heading towards minimising price-negative externalities. Therefore, it is an opportunity for Sri Lanka to position itself as a leader in sustainable production practices, opening up new markets for eco-friendly products and services, particularly targeting the international markets. Further, Sri Lanka can stimulate local industries focused on waste management, recycling, repairing and remanufacturing, creating new job opportunities and supporting small businesses, fostering inclusive growth.

Moreover, CE holds particular promise for achieving multiple SDGs, including sustainable cities and economies (G11), industry, innovation and infrastructure (G9), responsible consumption and production (G12), climate action (G13) and life on land (G15). This will help Sri Lanka to address its pressing social, economic, and environmental challenges, fostering a more inclusive and sustainable future. This would build up the country's image as well, which would be beneficial in promoting tourism and international trade.

To successfully adopt CE principles in Sri Lanka, the country should focus on resource

efficiency, waste reduction, and sustainable design. Government intervention and providing the regulatory framework is crucial in this regard. CE transition will help industries move toward closed-loop systems, reusing, remanufacturing, or recycling materials to reduce dependence on raw materials. The promotion of public-private partnership models will further attract much-needed investments in green technologies and infrastructure to support industries in the transition toward the CE model. Furthermore, it is important that awareness and capacity building occur among businesses and consumers in order to create a culture of resource conservation. Integrating CE practices into industrial policy and regulatory frameworks in Sri Lanka could offer competitiveness gains, reduced environmental impacts, and congruence with global sustainability trends that will promote long-term economic resilience.

References

1. Binsuwadan, J., Yousif, G. M. A., Abdulrahim, H., & Alofaysan, H. (2023). The role of the circular economy in fostering sustainable economic growth in the GCC. *Sustainability*, 15(22), 15926. <https://doi.org/10.3390/su152215926>
2. Buşu, M. (2019). Adopting circular economy at the European Union level and its impact on economic growth. *Social Sciences*, 8(5), 159. <https://doi.org/10.3390/socsci8050159>
3. Horbach, J., & Rammer, C. (2019). Circular economy innovations, growth and employment at the firm level: Empirical evidence from Germany. *Journal of Industrial Ecology*, 24(3), 615–625. <https://doi.org/10.1111/jiec.12977>
4. International labour Organisation (2023). *DECENT WORK IN THE CIRCULAR ECONOMY: An overview of the existing evidence base*. https://www.ilo.org/sector/Resources/publications/WCMS_881337/lang--en/index.htm
5. IRP (2020). *Resource Efficiency and Climate Change: Material Efficiency Strategies for a Low-Carbon Future*. Hertwich, E., Lifset, R., Pauliuk, S., Heeren, N. A report of the International Resource Panel. United Nations Environment Programme, Nairobi, Kenya
6. Kirchherr, J., Reike, D., & Hekkert, M. P. (2017). Conceptualizing the circular economy: An analysis of 114 definitions. *Resources, Conservation and Recycling*, 127, 221–232. <https://doi.org/10.1016/j.resconrec.2017.09.005>
7. Lacy, P., & Rutqvist, J. (2016). *Waste to wealth: The Circular Economy Advantage*. Springer.
8. MacArthur, E. (2024). Case studies and examples of circular economy in action. <https://www.ellenmacarthurfoundation.org/topics/circular-economy-introduction/examples>
9. OECD (2018). *Global Material Resources Outlook to 2060: Economic Drivers and Environmental Consequences*, OECD Publishing, Paris. <https://doi.org/10.1787/9789264307452-en>.
10. Sitra and Accenture (2018), *Circular economy business models for the manufacturing industry*.
11. UN (2024). *World Population Prospects 2024*. <https://www.un.org/development/desa/pd/world-population-prospects-2024>.
12. UNEP (2024). *Global Resources Outlook 2024*. <https://www.un-ilibrary.org/content/books/9789280737417>
13. The World Bank (2022). *Squaring the Circle: Policies from Europe's Circular Economy Transition* © World Bank
14. World Economic Forum (2014). *Towards the Circular Economy: Accelerating the scale-up across global supply chains*. https://www3.weforum.org/docs/WEF_ENV_TowardsCircularEconomy_Report_2014.pdf

COUNTERING CYBERCRIME IN SRI LANKA - CHALLENGES, OPPORTUNITIES, AND WAY FORWARD

H M K Harshadewa
Senior Assistant Director
Financial Intelligence Unit

The Rise of Cybercrime

The 1990s marked a transformative era with rapid advancements in communication technology. Everyday tasks became more convenient, and information was just a click away. Online banking and shopping brought unprecedented ease, while balancing work and personal life became simpler. However, these technological strides also opened the door to cybercriminals, who quickly exploited these innovations. Over the years, cybercrime has surged at an alarming rate. According to Sri Lanka Computer Emergency Readiness Team (CERT), global cyber-attacks increased by 38% in 2022 compared to 2021, and according to the 2023 Cybercrime Report by Cybersecurity Ventures, global cybercrime costs are projected to reach \$10.5 trillion annually by 2025—a staggering rise from \$3 trillion in 2015. Ransomware¹ alone is expected to cost organizations \$265 billion annually by 2031, as attacks grow in both complexity and impact². The United Kingdom has faced notable consequences, with approximately 32% of businesses reporting cyber-attacks in 2023, incurring an average loss of £4,200 per incident. Phishing³ remains the most

pervasive threat, affecting millions worldwide and driving the sharp increase in cyber incidents⁴.

This rapid rise in cybercrime underscores the urgent need for robust cybersecurity measures and international collaboration to combat increasingly sophisticated threats. Compounding the issue, law enforcement agencies now grapple with the complexities of managing digital evidence tied to various crime types. Unlike traditional crimes, cybercrime transcends national borders—perpetrators, victims, computers, and digital evidence are often scattered across multiple countries, posing significant challenges for investigation and enforcement.

This article provides an introduction to Sri Lanka's approach to addressing the cybercrime challenge. It begins by exploring the international frameworks, such as the Convention on Cybercrime (commonly known as the Budapest Convention), that have shaped the country's institutional and legal responses. The discussion then shifts to the robust framework Sri Lanka has established, highlighting the key institutions and laws supporting its

revealing sensitive information or installing malware

1 A malware that encrypts data and demands payment for access

2 Source: Cybersecurity Ventures, 2023

3 A cyberattack where fake messages trick users into

4 Source: AAG IT Services, 2023

cybercrime countermeasures. Subsequently, the article examines the challenges Sri Lanka faces in countering cybercrime and proposes actionable pathways to overcome them. Finally, it emphasizes the crucial role of international collaborations and outlines a forward-looking strategy for safeguarding Sri Lanka's digital future.

Countering Cybercrime – The Budapest Convention

Recognizing the growing cybercrime threat, the Council of Europe—a leading organization promoting human rights, democracy, and justice—took decisive action. Collaborating with experts from law enforcement, private technology firms, and public institutions, it developed a comprehensive response. The result was the world's first international treaty addressing cybercrime: the Convention on Cybercrime, commonly known as the Budapest Convention. Adopted in 2001 in Budapest, Hungary, the treaty entered into force on July 1, 2004.

This treaty requires participating countries to integrate computer-related offenses into their national criminal laws. It equips law enforcement authorities with tools to investigate and collect electronic evidence, while instituting safeguards to prevent abuse of power. Moreover, it establishes a framework for robust international cooperation, enabling countries to work together seamlessly—24/7—to pursue cybercriminals across borders.

As technology and cybercrime evolved, the Budapest Convention kept pace through protocols and amendments. For instance, the First Additional Protocol, which criminalized acts of a racist or xenophobic nature committed via computer systems, entered into force on March 1, 2006. The Convention's Cybercrime Convention Committee (T-CY), representing its state parties, has also issued numerous guidance notes to address emerging

challenges and refine operational practices.

In 2014, the T-CY introduced detailed guidance notes on major cyber threats, including:

Botnets: Compromised networks of computers used for attacks without users' knowledge.

Identity Theft: Fraudulent use of personal information, often through phishing or spoofing.

DDoS Attacks: Overloading systems with external requests to disrupt availability.

Critical Infrastructure Attacks: Targeting vital sectors like fuel, water, defence, and finance.

Malware: Harmful software such as viruses, worms, and trojans.

Spam: Bulk unsolicited emails, often containing fraudulent content.

Cyber Terrorism: Cyber activities supporting or facilitating terrorism.

Election Interference: Malicious actions aimed at undermining election campaigns.

Ransomware: Encrypting systems or data and demanding ransom for access restoration.

In November 2021, the Convention evolved further with the Second Additional Protocol, focusing on enhancing cross-border cooperation and access to electronic evidence. While awaiting ratification by the minimum required parties, this protocol aims to streamline law enforcement access to critical data across borders, addressing the complexities of transnational cybercrimes. Today, the Budapest Convention remains the cornerstone of international efforts to combat cybercrime. Supported by T-CY's evolving guidance and protocols, the treaty continuously adapts to address emerging threats. Regular reviews and updates ensure that member states are equipped to tackle the ever-changing landscape of cybercrime effectively⁵.

5 Source: The Convention on Cybercrime (Budapest Convention, ETS No. 185) and its Protocols, Council of Europe

The Emergence of Cybercrime in Sri Lanka

As Sri Lanka embraced the digital age, online banking, e-commerce, and digital communication transformed daily life, making services more accessible and enhancing connectivity across the nation. However, this digital shift also created new opportunities for cybercriminals, who quickly exploited vulnerabilities in the online landscape. Over time, cybercrime in Sri Lanka has evolved from isolated incidents into a significant national issue, impacting individuals, businesses, and even critical infrastructure.

Following the economic crisis triggered by the COVID-19 pandemic, cybercrime surged notably, particularly in scams, fraud, and identity theft. The economic downturn left many financially vulnerable, providing ground for cybercriminals to launch elaborate schemes. Scammers capitalized on the increased reliance on digital platforms, including cryptocurrencies, using phishing attacks and fake investment schemes to defraud individuals and businesses. Identity theft cases also rose sharply, with criminals employing social engineering tactics to access sensitive information, exploit bank accounts, or make fraudulent transactions. In 2022, there were over 16,000 cybersecurity-related incidents—a dramatic increase compared to the 3,685 incidents reported in 2017⁶. The financial strain caused by these crimes further deepened the struggles of an already vulnerable population.

In August 2023, a major ransomware attack targeted Sri Lanka's government email network, compromising nearly 5,000 email addresses under the gov.lk domain. This attack led to the permanent loss of months of data from thousands of email accounts, including those belonging to top government officials. The ransomware encrypted the Lanka Government Cloud (LGC) system and its backups, erasing data spanning May 17

to August 26, 2023⁷. Sri Lanka's financial sector has also been a frequent target of cybercriminals, with rising cases of online banking fraud and ATM skimming. These incidents highlight the urgent need for stronger cybersecurity measures and increased public awareness to protect vulnerable communities and critical systems during times of crisis.

Sri Lanka's Cybercrime Countering Framework

Sri Lanka's accession to the Budapest Convention in May 2015 marked a pivotal step forward, making it the first South Asian country to join this international treaty. The convention became effective in Sri Lanka on September 1, 2015, establishing a foundation for enhanced investigative and enforcement capabilities to combat cybercrime. While not being a party to the original negotiations, Sri Lanka acknowledges the convention as the most effective instrument for addressing transnational cyber threats and has committed to aligning its domestic laws with its provisions⁸. Further demonstrating its commitment, Sri Lanka signed the Second Additional Protocol in November 2022. This protocol emphasizes cross-border cooperation, particularly in securing electronic evidence from foreign service providers—a critical aspect of prosecuting cybercrimes that transcend jurisdictions.

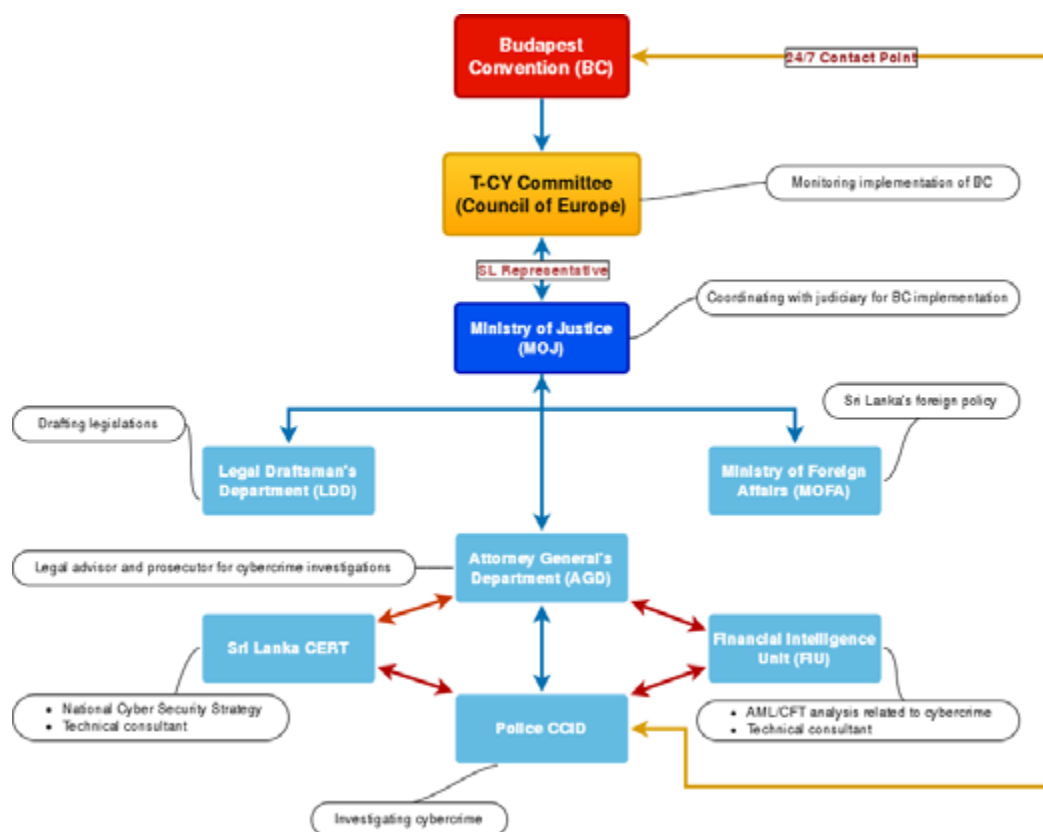
Sri Lanka has also established a substantive framework to counter cybercrime, integrating international standards and capacity-building initiatives. This framework is based on the provisions of the Budapest Convention and its additional protocols, with contributions from key national stakeholders. These institutions not only support the country's cybersecurity infrastructure but also play an essential role in implementing and upholding Sri Lanka's international commitments.

6 Source: Sri Lanka Computer Emergency Readiness Team (SLCERT)

7 Source: The Sunday Times – September 10, 2023

8 Source: Sri Lanka – General Statement for Inter-Governmental Expert Group on Cybercrime, March 28, 2019

Figure 1: Sri Lanka's Cybercrime Countering Institutional Framework



Institutional Framework

Ministry of Justice (MOJ): The MOJ oversees judicial processes and is responsible for enacting and updating legislation to address emerging cyber threats. It plays a central role in aligning national laws with international standards through the Budapest Convention and serves as Sri Lanka's representative in the Cybercrime Convention Committee (T-CY).

Ministry of Foreign Affairs (MOFA): MOFA plays a critical role in representing Sri Lanka's foreign policy during the implementation of the Budapest Convention and its additional protocols. Given the convention's emphasis on cross-border cooperation, MOFA facilitates robust international collaboration essential for combating cybercrime.

Attorney General's Department (AGD): The AGD prosecutes cybercrime cases, ensuring

offenders are held accountable under existing laws. It collaborates closely with the MOJ to adapt legal measures to tackle evolving cyber threats effectively.

Computer Crimes Investigation Division (CCID): Established in March 2021 as a specialized division within the Sri Lanka Police, the CCID investigates cybercrimes such as hacking, online fraud, identity theft, and cyberbullying. It also serves as Sri Lanka's 24/7 contact point under the Budapest Convention. The CCID has received support for their investigations through technical upgrades facilitated by international partners, including the Republic of Korea.

Sri Lanka Computer Emergency Readiness Team (CERT): Founded in 2006, CERT serves as the national agency dedicated to cybersecurity. It monitors cyber threats, provides incident response

services, and conducts awareness programs. In collaboration with the ICT Agency of Sri Lanka (ICTA), CERT has played a vital role in capacity-building initiatives, enhancing the investigative techniques of law enforcement and judiciary officials.

Financial Intelligence Unit (FIU): The FIU monitors financial transactions to combat money laundering and terrorist financing, including cyber-enabled financial crimes. Under the Prevention of Money Laundering Act, No. 5 of 2006 (as amended), cybercrimes are recognized as predicate offenses to money laundering. In terms of the legal mandate provided by the Financial Transactions Reporting Act, No. 6 of 2006 (FTRA), the FIU analyses financial transactions linked to such activities, supports cross-border information exchange, and collaborates with law enforcement on investigations and prosecutions. Additionally, the FIU provides technical consultations to law enforcement authorities on matters such as blockchain analysis and other cyber-related aspects.

Legal Draftsman's Department (LDD): The LDD drafts legislation necessary to implement the Budapest Convention and its additional protocols in Sri Lanka. Working in close consultation with the AGD, MOFA, and MOJ, the LDD ensures the legislative framework complies with the convention's requirements while upholding Sri Lanka's legal and constitutional principles.

Legal Framework

Through the Budapest Convention and its additional protocols, Sri Lanka has strengthened its domestic laws to enhance investigative efficiency while aligning with international best practices.

Computer Crime Act, No. 24 of 2007: This Act criminalizes unauthorized access to computer systems, data theft, and other cyber offenses. It includes provisions for investigations, real-time data collection, and international cooperation, with

safeguards to protect human rights, in line with Article 15 of the Budapest Convention. Several related Acts complement the Computer Crime Act, broadening its application to cover diverse cybercrime scenarios.

Prevention of Money Laundering Act, No. 5 of 2006: This law addresses the laundering of criminal proceeds, including those derived from cyber-related activities. It supports the Financial Intelligence Unit (FIU) in identifying and mitigating financial cybercrime risks.

Online Safety Act, No. 9 of 2024: Enacted to regulate harmful online content, this Act seeks to protect users from cyber threats. However, it has also sparked debate regarding its potential impact on freedom of expression.

Personal Data Protection Act, No. 9 of 2022: As South Asia's first data protection law, this Act was influenced by the safeguards outlined in the Budapest Convention's Second Additional Protocol. It ensures the secure handling of personal data and establishes compliance standards for both public and private sectors.

Electronic Transactions Act, No. 19 of 2006, and its 2017 Amendment: This Act facilitates digital contracts, documents, and electronic signatures, ensuring secure online transactions. It aligns Sri Lanka's legal framework with international electronic communication standards.

Mutual Assistance in Criminal Matters Act, No. 25 of 2002 (MACMA) and its 2018 Amendment: Incorporated into the Computer Crimes Act, MACMA enables Sri Lanka to engage in international cooperation for cybercrime investigations, including the sharing of electronic evidence as outlined in the Budapest Convention. The 2018 amendment enhanced Sri Lanka's capacity to combat cybercrime by expanding the scope of mutual assistance to include cybercrime investigations. It introduced mechanisms for

preserving and disclosing computer data and enabled advanced technologies like video conferencing for evidence collection.

Challenges in Countering Cybercrime in Sri Lanka and Pathways to Overcome Them

Despite its robust institutional and legal frameworks, Sri Lanka faces significant challenges in countering cybercrime, including resource limitations, expertise gaps, low public awareness, inadequate regulation of emerging technologies, and fragmented inter-agency coordination. Addressing these issues is critical to strengthening the nation's cybersecurity landscape and protecting its citizens and institutions from online threats.

Resource Constraints: One of the most pressing challenges is the lack of resources—both human and technological. The demand for skilled investigators far exceeds the available supply, placing a heavy burden on existing personnel. Additionally, essential infrastructure, such as advanced computer systems and specialized forensic tools, is limited. Addressing this requires strategic investments in recruitment and training programs, alongside partnerships with international organizations to equip cybercrime units with the necessary tools and expertise.

Low Public Awareness of Cyber Scams and Frauds: Limited public awareness about cyber scams, online fraud, and identity theft exacerbates the challenge of countering cybercrime. Many Sri Lankans remain unfamiliar with common tactics such as phishing, fake investment schemes, and social engineering, leaving them vulnerable to exploitation. Public awareness campaigns, spearheaded by institutions like CERT, the Central Bank, the FIU, and other relevant bodies, could play a vital role in educating citizens about safe online practices and identifying potential threats.

Insufficient Regulation for Emerging Technologies like Cryptocurrency: The rise of cryptocurrencies

has introduced regulatory challenges, as Sri Lanka currently lacks a comprehensive framework to govern their use. This regulatory gap hinders law enforcement's ability to monitor and control criminal activities involving digital currencies. Developing legislation to regulate cryptocurrencies and collaborating with international partners to establish enforcement guidelines could significantly improve oversight and accountability in this area.

Fragmented Coordination Among Investigative Bodies: Effective counter-cybercrime efforts demand seamless collaboration among key institutions, including the CID, CCID, CERT, FIU, and the Attorney General's Department. However, these entities often operate in silos, leading to missed opportunities for collaboration and data sharing. This fragmented approach reduces the efficiency of investigations and creates exploitable gaps for cybercriminals.

To overcome these challenges, Sri Lanka could establish a centralized cybercrime coordination body or conduct regular inter-agency meetings to foster collaboration. Adopting a secure, shared database for cybercrime-related information would further enhance coordination and enable faster responses to cyber incidents.

Success Through Collaboration: A Case Study

Despite these challenges, Sri Lanka has demonstrated the potential of inter-agency collaboration in combating cyber-enabled financial crimes. In a recent case, the FIU partnered with the CID and the AGD to dismantle a sophisticated Ponzi scheme disguised as a high-return cryptocurrency investment. Leveraging detailed blockchain analysis, the FIU identified the illegal nature of the scheme and froze over LKR 1.5 billion in bank accounts and USDT 800,000 in cryptocurrency wallets linked to the operation (through Binance). This coordinated effort resulted in multiple arrests and asset seizures, highlighting the success

achievable when institutions work together to address complex cybercrimes. It underscores the importance of fostering collaboration and leveraging technological capabilities to strengthen Sri Lanka's cybercrime response framework.

The Role of International Frameworks in Countering Cybercrime in Sri Lanka

International frameworks play a pivotal role in enhancing Sri Lanka's capacity to combat cybercrime by facilitating collaboration, knowledge sharing, and skill development. Among these, the Council of Europe's GLACY (Global Action on Cybercrime) project has been a cornerstone of Sri Lanka's efforts to effectively address cyber threats. As a key initiative, GLACY has provided extensive training for Sri Lankan criminal justice authorities, including judges, prosecutors, police investigators, and FIU analysts in recent years. These sessions focus on critical aspects such as analysing cybercrime cases, collecting digital evidence, conducting investigations, and ensuring successful prosecutions. These comprehensive trainings have significantly enhanced Sri Lanka's ability to address evolving cybercrime challenges.

GLACY's engagement extends beyond training, fostering strong communication channels and actively involving Sri Lankan representatives in international events, including conferences and webinars. These engagements not only promote knowledge sharing but also align Sri Lanka's strategies with global best practices. As a result, Sri Lanka's criminal justice authorities are better equipped to stay updated on emerging cybercrime trends and adopt innovative approaches to address them.

The GLACY-e project has also facilitated collaboration between the FIU and international cybersecurity firms, offering invaluable technical expertise in areas such as blockchain analysis and handling digital evidence. These partnerships

have proven particularly beneficial in investigating cybercrimes involving cryptocurrency transactions. The technical knowledge gained through such collaborations has been instrumental in assisting police investigators, with the FIU often serving as a technical consultant. Furthermore, cryptocurrency exchange platforms like Binance have played a crucial role in supporting Sri Lanka's efforts to counter cybercrime. Binance has worked closely with the FIU, providing insights into cryptocurrency transactions and enabling authorities to trace illicit activities and bad actors linked to financial crimes.

This collaborative approach, involving international frameworks, cybersecurity firms, and cryptocurrency platforms, underscores the importance of global cooperation in addressing the multifaceted challenges of cybercrime. These efforts have not only bolstered Sri Lanka's cybercrime response capabilities but also positioned the country to adapt to the rapidly evolving digital threat landscape.

Way Forward

Sri Lanka's commitment to strengthening its digital economy and infrastructure presents an opportunity to address the challenges of combating cybercrime. The government's vision to establish a Digital Public Infrastructure (DPI) aims to foster economic growth, enhance competitiveness, and empower citizens (source: President's Media Division). Integrating robust cybersecurity strategies into this digital transformation will be crucial for creating a secure environment for both citizens and businesses.

Through international collaborations like the GLACY initiative, Sri Lanka has the chance to advance the skills of its law enforcement, judicial, and prosecutorial bodies. As the hub country for South Asia in the GLACY-e project (August 2023–January 2026), Sri Lanka plays a pivotal role in

the region. The FIU and CERT jointly coordinate GLACY-e efforts in the country, ensuring effective utilization of training opportunities for the country.

The FIU's active contributions to the GLACY-e project include:

December 2023: Participation in the Octopus Conference in Bucharest, Romania, a premier platform for cybercrime experts from over 100 countries.

June 2024: Attendance at the 1st GLACY-e Steering Committee Meeting in Strasbourg, France.

October 2024: Delivery of a presentation at the International Network of National Judicial Trainers online workshop, showcasing a successful blockchain analysis case done by Sri Lankan criminal justice authorities under the guidance of the FIU.

November 2024: Participation in the GLACY-e Hub Committee Meeting (online).

Sustained engagement in these initiatives will help Sri Lanka build expertise in areas such as digital forensics, electronic evidence handling, and complex cybercrime investigations. These collaborations will enable the country to align with global standards, supporting the government's goal to develop a competitive and resilient digital economy.

As emerging technologies like cryptocurrency and e-KYC become mainstream, implementing comprehensive regulations will be critical to prevent misuse in financial crimes and cyber activities. New legislation governing digital/virtual assets—covering cryptocurrency transactions, platform licensing, and monitoring—can empower law enforcement to address these challenges effectively. Additionally, enhanced cross-agency coordination will ensure a unified response to technology-driven cybercrime.

By investing in resources, strengthening international collaborations, and enacting forward-thinking regulations, Sri Lanka can secure its digital landscape while advancing its digital economy. These efforts will position the nation to meet global ICT standards, protect its citizens, and actively contribute to the international fight against cybercrime.

Resources:

The Convention on Cybercrime (Budapest Convention, ETS No. 185) and its Protocols

<https://www.coe.int/en/web/cybercrime/the-budapest-convention>

National Cyber Security Strategy of Sri Lanka (2024 – 2027) - Draft Version 14

<https://cert.gov.lk/wp-content/uploads/2024/03/NCSS-Draft-V14.pdf>

The Record - Sri Lankan government loses months of data following ransomware attack

<https://therecord.media/sri-lanka-loses-months-of-government-data-in-ransomware-attack>

The Sunday Times - Police special unit springs into action to curb rising cybercrimes amid multiple challenges

<https://www.sundaytimes.lk/210926/news/police-special-unit-springs-into-action-to-curb-rising-cybercrimes-amid-multiple-challenges-456479.html>

BBC News - Sri Lanka's controversial internet safety law comes into force

<https://www.bbc.com/news/world-asia-68163414>

CERT Sri Lanka

<https://cert.gov.lk/>

Online Safety Act

<https://www.parliament.lk/uploads/acts/gbills/english/6311.pdf>

Sri Lanka – General Statement for Inter-Governmental Expert Group on Cybercrime (28th March 2019)

President's Media Division - President Appoints Chief Advisor on Digital Economy

<https://pmd.gov.lk/news/president-appoints-chief-advisor-on-digital-economy/>

AN ANNOUNCEMENT TO THE PUBLIC

Do you carryout transactions with any of the following types of financial institutions?

- Licensed Banks
- Licensed Finance Companies
- Insurance Companies
- Stockbrokers
- Restricted Dealers
- Primary Dealers
- MVTs Providers

When requested by these institutions, it is your responsibility to provide the information and supporting documents

Information and Documents Required by the Financial Institutions for the Customer Due Diligence Process

1. Full Name
2. Permanent / Residential Address
3. Telephone Number
4. Date of Birth
5. Nationality
6. NIC/Passport/Driving License
7. Employment details
8. Source of Funds
9. Expected Monthly Turnover
10. Purpose of the Account/Transaction
11. Expected Mode of Transactions, etc.

- **Treat any third-party transactions made using your account with caution.**
- **Keep your account credentials and PIN private. Share neither with outside parties as your account could be vulnerable for unauthorized transactions leading to financial crimes.**

Be Mindful!



ශ්‍රී ලංකා මහ බැංකුව
இலங்கை மத்திய வங்கி
CENTRAL BANK OF SRI LANKA



මූල්‍ය ඉදිරි ඒකකය
நிதியியல் உளவறிதல் பிரிவு
FINANCIAL INTELLIGENCE UNIT

Director, Financial Intelligence Unit of Sri Lanka, Central Bank of Sri Lanka, No. 30, Janadhipathi Mawatha, Colombo 01

☎ 0112477125 🖨 0112477692 @ fiu@cbsl.lk 🌐 www.fiusrilanka.gov.lk