

PROPOSED PUBLIC/INVESTOR
EDUCATION PROGRAMME

Prepared for:

Capital Markets Development Project,
U.S. Agency for International Development,
Sri Lanka

January 1990



INTERNATIONAL SCIENCE
AND TECHNOLOGY
INSTITUTE, INC.

PROPOSED PUBLIC/INVESTOR
EDUCATION PROGRAMME

Prepared for:

Capital Markets Development Project,
U.S. Agency for International Development,
Sri Lanka

Contract No. 383-0100-C-00-9019-00

Prepared by:

Tom Healy

January 1990



INTERNATIONAL SCIENCE AND TECHNOLOGY INSTITUTE, INC.
1129 Twentieth Street, N.W., Washington, DC 20036
202-785-0831 • Telex: 272785 ISTI UR • Fax: 202-223-3865

TABLE OF CONTENTS

	Page
1. Introduction	1
2. Current Situation Analysis	1
3. Campaign Target Audience & Objectives	3
4. Campaign Structure	5
5. Strategy Review	13

Appendix 1. Timing and Budget Plan

Appendix 2. Agency Briefing

Appendix 3. Schedule of Main Meetings

This is a report prepared by Mr Tom Healy, General Manager of the Irish Stock Exchange, acting as a consultant for the International Science & Technology Institute Inc (ISTI) of Washington, DC.

The report proposes a Public/Investor Education Programme which would be implemented as an integral part of the Sri Lanka Capital Markets Development Project being carried out by ISTI on behalf of the U.S. Agency for International Development (USAID) in Sri Lanka.

The views expressed by the consultant in this report are his own and do not necessarily represent the views of ISTI or USAID.

1. Introduction

The Capital Markets Development Project contract between USAID/Sri Lanka and the International Science and Technology Institute, Inc. (ISTI) contains a requirement for the contractor, i.e., ISTI, to design and implement a public investor education programme to support the development of the Colombo Securities Exchange and The Securities Council. The objective of this programme is to create the circumstances which will stimulate greater depth and liquidity in the secondary stock market in Sri Lanka by encouraging wider participation by the potential investing public. Mr. Tom Healy, General Manager of the Investor Stock Exchange, was retained as a consultant by ISTI to undertake this assignment. The consultant was asked to design a programme which would achieve this objective and be capable of implementation by the Exchange, the Council and the Contractor.

The consultant undertook an intensive review of the available reports and documentation on the capital market in Sri Lanka. This was followed by widespread consultation with leading figures in the securities, financial and mass communications sectors, as well as meetings with relevant persons in the education sector. The consultant held a total of 25 meetings with persons outside the resident ISTI team. In order to design a suitable programme it was necessary for the consultant to also study the channels of distribution and communication that would be available to the securities market community.

On the basis of these considerations the programme was designed to fit within a total budget allocation of US\$ 350,000.

2. Current Situation Analysis

It is estimated (but not proven by research) that there are about 25,000 private shareholders in the Sri Lanka securities market. These shareholders own stock in a total of just over 170 listed companies. They are serviced by the nine member firms of the

Colombo Securities Exchange. The overall operations of the securities market are supervised in turn by the Securities Council.

All of the member firms of the Exchange and all of the quoted companies are located in the Colombo area. Furthermore, it is suspected that virtually all of the investing shareholders are also located in this area.

In terms of its performance, the market operated by the Colombo Securities Exchange is very illiquid by any standards. During 1989 it had an average daily turnover of just over Rs 1 million in an average of 70 transactions. While the number of transactions per day is on average four times higher than it was five years ago, it must be recognised that even growth rates of this scale are not sufficient to allow the market break through to an acceptable level of liquidity in the foreseeable future without some external boost that would cause a quantum leap in activity.

The price performance of the market has, however, been very impressive by any standards with an average growth of about 40 percent per annum over the four year period 1985-1988. Furthermore, virtually all of the companies quoted on the market regularly pay dividends to their shareholders.

It is suggested that the main reason for such low activity in a market with such a good capital growth performance is the poor level of awareness of the market among the potential investing public, particularly outside Colombo. In a country of over 16 million people, to effectively limit the market's penetration to the 1.6 million who live in Greater Colombo results in a level of concentration that is unlikely to sustain any serious expansion in the market.

The lack of penetration of the market outside the Colombo area results from a combination of the lack of stockbroking facilities throughout the rest of the country and an almost nonexistent level of media coverage of the stock market. It is obvious that the main challenge facing the market is to develop an awareness and interest among the population throughout the country.

However, while the picture painted above may seem bleak, it must be noted that the basic structure of the market, its regulation and the performance of listed companies are such that it has the basic foundation for development.

3. Campaign Target Audience and Objectives

When defining the target audience for this campaign, it must be borne in mind that the main vehicle of communication is the media. The mass media in Sri Lanka does not break down easily into different segments of the market in relation to income or purchasing or savings ability. This is perhaps due to the fact that the main breakdown of population in the country is on the basis of language. In order to carry the campaign to all geographic areas it is essential to use all three language media. Within these language groups however, it will not be realistic to attempt to focus the campaign exclusively on those sub-groups that would be defined as the target audience.

While any campaign requires that it have a defined target audience it will be recognised, on the basis of the above, that this campaign will in effect reach all segments of society, whether or not they match the target audience profile. In practice, it is not so immediately relevant to the actual campaign to be as precise in definition of the audience as it would be in a country which has media that are designed to reach very specific segments of the population.

It is suggested that the target audience for this campaign is adults in households with an income of at least Rs 3,000 per month. This is based on the assumption that in any one household there is unlikely to be more than one potential investor. Furthermore the public issue campaign of the Sampath Bank suggested that there is significant investor potential at an income as low as Rs 3,000 per month. There are about 270,000 such households in Sri Lanka, representing just over the top 8 percent of households by income. Since newspaper readership among persons above Rs 3,000 per month income is extraordinarily high at 95 percent, it is clear that

Sri Lanka is a country in which newspapers are highly effective means of communication. Furthermore, it is estimated that TV programs are viewed by 87 percent of the population who have an income greater than Rs 3,000 per month.

The basic objectives of the campaign are to:

- Create an initial broad and high level of awareness in the stock market among potential investors in all geographic and language areas (potential investors are defined as the target audience above);
- Create the media capability and motivation to maintain a high level of knowledge and interest in the long-term; and
- Create the capability and commitment in the education system to build a high level of understanding of the stock market among future generations.

It is important to note that while the media in Sri Lanka have a very strong penetration of the target audience, there is no useful coverage of stock market activities in the media of a type which would generate awareness and interest among potential investors. This is why this campaign will not only set out to create a high level of initial awareness among investors but is also designed to equip the media with the materials and skills to provide appropriate and current information on the market to the population at large. It is also designed to cater for the long-term by ensuring that the education system is used to best effect to educate future generations in the workings and relevance of the stock market.

Finally, it is important to note that this campaign should be closely coordinated with the Asian Development Bank project to educate policy makers and other influential groups through financial management and planning seminars and also with the Government's privatisation campaign, in order to ensure that they are mutually supportive.

4. Campaign Structure

The campaign will have a number of distinct elements. Its overall success will depend on each one of these being successfully implemented since what is being attempted by the Council and the Exchange is nothing short of a major change in public consciousness, both in the short-term and the long-term. While the core proposals are designed to create and maintain awareness and understanding of the market, these in turn depend on having certain structural changes in place. When the structural and awareness measures are blended into one campaign it divides into four elements, relating to distribution facilities, initial awareness, continuing information and the contribution of the education sector.

Before the campaign is publicly launched, the Council should commission market research to establish the level and quality of awareness of the stock market and its role among the target audience throughout the country. Guidance on a research brief has already been given to ISTI's resident advisors in Colombo. This research will have to:

- Focus the advertising and publicity campaigns in particular towards the core problem areas; and
- Provide a basis on which the success of the campaign can be assessed after the first tranche of advertising is completed and also at the end of the formal campaign in June 1992.

As indicated, this initial research would be followed up by a smaller scale research project after the first tranche of advertising and the initial publicity drive to enable the Contractor, the Council, and the Exchange to evaluate its impact and refine or refocus it if necessary. Finally at the end of the total campaign a third research project would make it possible to establish the degree to which it has succeeded. Since it is likely that the impact of the campaign could vary somewhat between various parts of the target audience, geographically or otherwise, and between the various messages, this research will also be useful in the future to the Council and the

Exchange in refining the emphasis of their continuing work via the media.

The results of the first research project and the interim research will be critically important guides to the advertising and PR agency in devising and refining the detailed messages and in deciding on the balance of concentration within the various media.

4.1 Distribution

In advance of the public campaign to create awareness and interest in the market, the member firms of the Securities Exchange will have to ensure that they have adequate distribution capabilities in the main regional centres throughout the country. This is clearly an essential prerequisite in that there is little point in mounting this campaign if potential investors cannot easily get access to broking services. It is highly unlikely that most new investors would be willing to deal directly with firms' offices in Colombo given the practical problems posed in relation to communications, mail and fast transmission of money and stock.

Given that this programme is designed to attract new investors into the market, from areas where there will be little or no previous direct or peer-group experience of dealing with brokers, it is essential that distribution facilities are established which will inspire confidence in these investors and handle their transactions efficiently. One way of doing this is to use a dual-level network of agents:

- Main Agents which are established offices of financial or professional businesses, e.g., banks, lawyers, accountants, etc. There might be one of these in each major regional centre per member firm of the Exchange and they would be authorised to take orders from clients and handle the local backup administration involved in the transactions.
- Referral Agents who could be individuals who would actively seek out potential investors. The Referral Agents would not

transact business directly for these investors but would refer them to a Main Agent or possibly to the Member Firm in Colombo.

A suitable structure for each member firm could involve one Main Agent in each main regional centre, supported by a network of local Referral Agents. Main Agents should be appointed for at least two years to allow them to be listed in advertisements and brochures.

It is suggested that these networks should be established before May 1990. It would probably be best to leave the financial arrangements between a firm and its agents to each firm since the balances of advantage and strength in the relationship will vary from firm to firm and from agent to agent.

4.2 Awareness and Persuasion

This would be the biggest element of the campaign in terms of cost and visibility. It is also intended to be very direct, forceful and persuasive. Between this and the "Ongoing Information" element it is almost certainly going to be the biggest and most complex campaign of a business nature ever mounted in Sri Lanka. The relevance of this point is that its impact should be much greater than in Western countries due to its relative novelty and absence of competition for public awareness given its level of intensity and the manner in which different aspects support and reinforce each other.

It is proposed that the Awareness and Persuasion element of the campaign would have a number of phases, combining advertising, publicity, subliminal teledrama, seminars and printed materials.

4.2.1 Advertising -- First Tranche

The campaign would begin with very intensive advertising over a period of three months in May to July 1990. The detailed content and media choice for this aspect of the campaign should be the subject of recommendations from the advertising agency, based on the findings of the initial market research. However the advertising should concentrate on getting the maximum impact for a very limited number of simple messages. These messages should be

designed to answer basic questions like "Why?", "What?" and "How?". Without prejudicing the agency's recommendations it is likely that the messages would concentrate on the returns available from investing in the stock market as opposed to alternative methods of deposit investment; explain what a share is, e.g., direct part-ownership of a business; how easy it is to both buy and, especially, sell shares; and how to go about buying and selling shares.

The advertising should cover all media in each language but, because of the nature of the messages it is likely that newspapers should account for about 70 percent of the spending. The budget for this tranche of advertising would be about Rs 3 million. This can be placed in a local context by noting that the Sampath Bank public offer advertising campaign cost just over Rs 2 million in total.

4.2.2 Teledrama

In many countries, especially those with a high viewership of teledramas, these can be used to great effect for subliminal persuasion. Preliminary discussion with advertising experts suggests that this would be a very effective instrument in Sri Lanka provided of course that it is used as a subliminal support for an overt advertising campaign. A teledrama for this purpose would be based on a middle-income family which would compare to the target audience household. Its purpose would be to portray such a family as progressive and the story would have a financial background, including trading in the securities market. It seems that a teledrama using the leading writers, actors and production staff could be mounted for a three-month cycle for about Rs 1.5 million. The teledrama would be used as a support bridge between the two advertising tranches and therefore should be screened during September to November 1990. The emphasis in the production of this teledrama must be to achieve a high-audience rating, using, as indicated above, the leading entertainers available. Such a production, which would avoid the promotion of an overt or crude message, would have its stand-alone broadcast value which should command a fee from the television networks. However it is

suggested that it be offered free in return for prime-time scheduling. If its production in three languages would require different casting or otherwise prove prohibitively expensive it would seem sensible to produce in one language and dub in the other two. However it is probably unlikely that it would be broadcast in all three so perhaps production in Sinhala and dubbed in Tamil would be its most effective use. This suggested use of a teledrama would not be acceptable to the television networks in many countries, but it was suggested to the consultant as a practical and effective option in Sri Lanka.

4.2.3. Advertising -- Second Tranche

The second tranche of advertising would be mounted in January and February 1991, some five months after the first tranche. Between the two tranches the other aspects of the campaign would continue, such as the teledrama (see above) and the editorial publicity (see below), in order to ensure a continuous campaign using differing blends of techniques so as to avoid "over-kill" with any one technique. The main purpose of this tranche is to reaffirm the same themes as in the first tranche but in a different way by using new advertising materials. The balance of concentration between messages, geographic or language areas or between media could be altered in this tranche to correct imbalances in terms of audience impact if these are identified by the interim research (see above). The audience impact of using a second advertising tranche, separated from the first by time and differentiated in terms of advertising materials, should aim to be similar in scope to the effect of revision in the educational component of the programme. Furthermore the overall message impact would be strengthened by the combination of two overt tranches of advertising, bridged by a teledrama designed to deliver subliminal confirmation and supported by an ongoing editorial and other publicity drive designed to deliver supportive information.

4.2.4 Editorial Publicity

While advertising has the ability to create a high level of awareness of simple and limited concepts and facts, it is not nearly as effective in

implanting complex messages. This is best achieved by working through editorial material in the media, supported by seminars and printed materials. The PR. agency should design an editorial publicity campaign which would continue right through until the end of the formal campaign in 1992. This aspect of the campaign would use feature articles, press releases, interviews, etc. based on information and materials from the Council and the Exchange. It would confirm, in greater depth, the messages addressed by the advertising campaign. However it would also deal with messages not suitable for advertising -- the organisational and regulatory structure of the securities market, the new role of the Council, and the role of the capital market in the development of the economy. The newspapers in particular should also be used to announce the appointments of agents and the progress and success of the wider share ownership campaign.

In order to participate as effectively as possible in the media campaign, senior Council and Exchange persons should be trained in interview and presentation techniques.

4.2.5. Seminars

Seminars can be a particularly influential tool of communication but, since they are so expensive in the use of time and resources they must be very closely targeted. A series of seminars should be held in the cities with the greatest concentrations of higher income potential investors. Local agents of brokerage firms, bank managers and other senior local contacts should be used to identify specific invitees, to avoid the expensive wastage involved in a general invitation approach. Brokers and, ideally, existing local investors should be used in these seminars which should aim to confirm in some depth all the messages of the programme. It is worth repeating that the success of seminars as a tool will depend even more on the quality of invitee than the quality of presentation.

4.2.6 Printed Materials

There are three main printed materials required for this programme (although these could be supplemented by others):

- A basic fact sheet about the stock market, its advantages, regulation, how to invest, etc which should be produced in large quantities for distribution by agents, banks, etc.;
- A more detailed and elaborate brochure for persons showing definite interest, direct enquiries, participants at seminars, etc., which would be much more expensive and should be distributed on a selective basis; and
- A basic text-book which would be designed to address the school syllabus needs discussed later in this report. This should be provided free to relevant teachers (and sold to students) but could also be used with key persons, such as Government officials who need to be briefed in detail on the operations of the market, the Exchange and the Council.

4.3

Ongoing Information

While the elements of this programme described above will be able to create a high level of awareness and interest very quickly, this will decline over time unless the target audience has access to continuing information and briefing on the market. This is a function that must be fulfilled by the media. However the Sri Lankan media at present do not cover the market in any useful way in this regard. This is due to a combination of factors:

- Limited existing interest among their readership;
- Limited access to a flow of suitably varied and packaged information from the market; and
- Absence of a cadre of journalists who know enough about the financial markets to interpret and report them.

While this programme will eliminate the problem of reader interest, special steps need to be taken to deal with the latter two problems above.

4.3.1 Information Supply

The Securities Exchange is already capable of collating and supplying a wide range of very useful and relevant information to the media but at present it issues only price statistics which when published are unattractive and uninteresting in content and presentation. The PR consultant should analyse the Exchange's information capabilities and devise procedures and presentation guidelines that ensure this information is provided in a way that is most useful and attractive to the media. This exercise must be carried out at the beginning of the programme, in April 1990, and must be done in close consultation with the media to instil in them a sense of "ownership" of the exercise.

4.3.2 Media Training

Discussions with two of the main publishing houses have established that they are critically short of journalists with any experience or knowledge of the financial markets, as indicated above. These media will not in general be averse to receiving direct aid under this programme in building an appreciation of financial reporting among a number of selected journalists and exposing them to the techniques and procedures of media which have a good quality of performance in this area. This aid can be delivered in the following way:

- A one-week appreciation and training course should be organised in Colombo for journalists nominated by their publishers. This course should be given by senior financial journalists from The Straits Times and Bangkok Post and structured and organised by a training specialist.
- These Sri Lankan journalists should be sent on two-week work experience programmes in the financial sections of The Straits Times and Bangkok Post under the supervision of the senior journalists used in the Colombo-based training.

These activities must also be carried out at the beginning of the programme, in April, 1990.

4.4. Education

To ensure that the long-term basis of knowledge and appreciation of the securities market is well established it is important that students in the schools be given good quality relevant teaching in the area. This can only be achieved by building the topic into the curriculum for "O" and "A" levels in an appropriate way. This was discussed with the Minister for Education and the National Institute of Education who were very supportive of the concept and are anxious to cooperate. The following approach should be taken:

- A working group should be set up immediately between the National Institute of Education, the Council and the Exchange in order to agree how best the securities market could be built into the secondary school curriculum for 1991.
- When the new curriculum has been agreed, a basic text book on the market should be prepared for teachers, with seminars to ensure they fully understand it. These should be done in the second half of 1990.
- When the new curriculum is introduced, a schools competition should be organised in which schools compete in managing an imaginary Rs 1 million investment portfolio over a period of six months. The PR agency could organise this for mid-1991, in co-operation with different language newspapers.

5. Strategy Review

Immediately after the first advertising campaign and early publicity work, the campaign strategy should be reviewed and, if necessary, refined. Audience research will be necessary for this, as indicated earlier.

6. Management and Administration of Programme

Parts of the programme described above will require significant time as well as skill investment especially in the areas of publicity, materials development and seminars. It is suggested that the most effective way to

manage and administer the programme would be to contract it totally to one advertising and public relations agency, with the Council's Public Relations Executive as the day-to-day liaison point with the Council. In the first six months at least, the person with overall management responsibility should have a formal weekly meeting with the agency to review progress against deadlines and plans.

When choosing an agency for the programme, particular care must be taken to ensure that the agency has sufficient personnel resources to handle the intensive work-load required in the first nine months. If necessary, the programme could be split between two agencies but it would render the management of the programme much more difficult.

When appointed, the agency should produce a very detailed work plan indicating specific work targets and time deadlines for all elements of the programme. This work plan would be a fixed item on the agenda of every review meeting between the programme manager and the agency. The agency should not be allowed to change the work plan without the written approval of the manager. Ideally, the work plan should be built into the agency's contract, in outline form.

All outputs and results from the agency's work i.e. draft articles, press releases, advertising, seminar schedules and agenda should be subject to approval by the Council. Copies of such approved items should be retained on file. The agency should supply the Council with copies of all advertisements, press articles, broadcast videos, tapes and transcripts of everything that appears in the media, either directly placed by the agency or arising as a consequence. All these materials should be retained for review and evaluation purposes. They will be especially important for the interim review of strategy as well as for ongoing review of performance against planned targets.

APPENDIX 1

TIMING AND BUDGET PLAN

ACTIVITY	TIMING	BUDGET US\$000	SUPPORT OR RESOURCE
Establish agent networks	Feb-May '90	-	Brokers/CSE
Appoint and brief advertising and PR agent	March '90	-	SC
Market research	April '90	10	PR Agency
Training for journalists/ upgrade CSE information	April '90	30	PR Agency
Train SC/CSE spokesmen	April '90	5	PR Agency
Produce brochures	Mar-May '90	40	Adv agency
Negotiate new schools curriculum	Feb-Jul '90	-	SC/CSE
Advertising campaign, first leg	May-Jul '90	78	Adv agency
Produce teledrama	Mar-Aug '90	40	PR agency
Broadcast teledrama	Sept-Nov '90	-	PR agency
Research and strategy review	Aug '90	10	Consultant
Publicity campaign/ seminars/schools competition	May '90-Jun '92	70	PR agency
Advertising campaign, second leg	Jan-Feb '91	30	Adv agency
Produce school textbook and train teachers	Sept '90 - Dec '90	27	PR agency
Market Research	June '92	10	PR agency

TOTAL BUDGET US\$350,000

TOTAL TIME: FEB '90 - JUNE '92

15

APPENDIX 2

AGENCY BRIEFING

1. When appointing an agency to implement this programme the following should be supplied to the chosen agency (or to a range of selected agencies if it is decided to appoint on foot of competition):

- Chapters 1-5 of this report
- Appendix 1 of this report

Chapter 6 and Appendices 2 and 3 should not be supplied.

2. If, for reasons outlined in Chapter 6 it is considered necessary to divide the programme between two agencies the division should recognize that while advertising will account for a major proportion of spending it will represent a relatively small proportion of personnel time. Therefore an appropriate division might be to have one agency handle advertising, teledrama, printed materials and the schools competitions, as the remaining elements will need a particularly tight level of theme coordination that can only be provided by a single agency handling them as a group.
3. If two agencies are chosen, each should be given all the materials mentioned at 1 above since they will both need to understand the overall thrust of the campaign. They should also be expected to meet regularly to ensure coordination of themes and approach.
4. The agency (or agencies) chosen should be required to produce a very detailed time, cost and targets plan for each element of the programme.
5. Ideally the market research should not be carried out by the chosen agency (or agencies). If this is not possible it should preferably be carried out by the agency not handling advertising. Finally each of the three market research projects should be carried out by the same agency on the same sample of the target audience.

APPENDIX 3
SCHEDULE OF MEETINGS

- January 2
- 09.30 Mr. L. Namasivayam, Director General, Securities Council
 - 11.30 Mr. Ravi Peiris, Manager, Colombo Securities Exchange
Percy De Soysa, Consultant, Colombo Securities Exchange
 - 12.30 Mr. L. Stanly Jayawardena, Chairman Securities Council
 - 2.15 Mr. D.J.M. Meegoda, Managing Director Merchant Bank of Sri Lanka Ltd
 - 3.30 Mr. G.C.B. Wijeyesinghe, Member, Securities Council
- January 3
- 09.30 Mr. Ajit Jayaratne, Member, Executive Committee, Colombo Securities Exchange
 - 11.00 Mr. Talbot Penner, Chief, Private Sector Division, USAID
 - 12.45 Mr. N.U. Jayawardene, Chairman, Colombo Securities Exchange
 - 2.45 Mr. S.K. Wickremesinghe, Member, Securities Council
 - 4.00 Mr. Ravi Peiris and Percy De Soysa
- January 4
- 09.00 Mr. V. Kailasapillai, Member, Executive Committee, Colombo Securities Exchange
 - 10.45 Mr. Irwin Weerackody, Chairman, Phoenix Advertising Services
 - 12:45 Mr. Nihal Goonewardene, President, ISTI Inc.
 - 2.30 Mr. Manik De Silva, Editor, Daily News
 - 3.30 Mr. S.T.G. Fernando, Member Securities Council and Deputy Governor Central Bank

- 4.30 Mr. Anton Balasuriya, Head of Sri Lanka Development Business Centre
- January 5 10.00 Mr. Reggi Candappa, Kenyon & Eckhardt
- 11.30 Mr. J. Lanerolle, Upali Newspapers Ltd
- 3.00 Ms. Lilamini Dias, Managing Director,JWT
- January 8 11.30 Mr. Mahadeva, Chairman, National Development Bank
- 2.15 Mr. Stanley Jayawardena, Chairman, Securities Council
- 4.30 Meeting of Rules Committee, Colombo Securities Exchange
- January 9 10.00 Ms. Rohini Nanayakkara, General Manager Bank of Ceylon.
- 11.00 Mr. N.U. Jayawardene, Chairman Colombo Securities Exchange
- 11.30 Hon. Minister for Education
- 2.00 National Institute of Education

Frequent discussion and meetings were held with ISTI resident staff Bradford A. Warner and John F. Kinnaman, Advisors to the Securities Council and the Colombo Securities Exchange, respectively.