PROGRESS

VOLUME I

ISSUE 3

September 1981

MINISTRY OF PLAN
IMPLEMENTATION
CENTRAL BANK BLDG.
COLOMBO

PROGRESS

Volume I Issue 3

SEPTEMBER 1981

Ministry of Plan Implementation
7th Floor, Central Bank Building
Colombo 1

1*—A 58583—600 (81/09)

INTRODUCTION

This is the third issue of this publication. It is very encouraging to note that leading personalities in the Public Sector are willingly contributing to " Progress ". As stated in the earlier issues, it must be pointed out that the opinions expressed in these articles are personal views of the authors.

In the present context, where many development plans and projects are being formulated and implemented, a continuous dialogue is necessary so that these plans and projects achieve their goals and thereby the country as a whole is benefited. Hence, it will be most welcome if this publication is used as the forum for such dialogues. There are no restrictions in the fields of discussion as long as they are directed in the path of " Progress ".

While extending an invitation to all public as well as private sector personnel to contribute their views on current issues, I wish to express my sincere thanks to the authors for their contributions in this publication.

W. B. Weerasooriya

Secretary,
Ministry of Plan Implementation.

September, 1981.

Export Expansion & Economic Development

V. E. SANTIAPILLAI

THE pivotal role of exports in economic development in a developing country such as Sri Lanka is not easily seen either by politicians and bureaucrats concerned with the business of government or by the public including the business community. Foreign trade, somehow, is generally viewed as something distant that does not directly touch the day to day lives of peoples as would, for example, a multipurpose river diversification scheme concerned with human re-settlement, agricultural expansion, energy development etc., all of which capture the attention of both the Government and the people at large. This is at the root of the problem of mobilising support at all levels for a concerted national effort to develop exports.

Exports and G.N.P. Growth

And yet the fact is that our very survival—not to speak of further improvement in the quality of life and standards of living of the country—is bound up with exports. Sri Lanka's economy, unlike that of many other developed and developing countries, is heavily dependant on exports. Today, exports generate over 25% of the gross national product of the country. This is considerably more than in any neighbouring country such as India or Pakistan and even Japan, a country reputed to have a highly export oriented economy. Thus exports are important not only from the point of view of earning much needed foreign exchange but also because of their widespread ramifications into the economic and social life of the country.

While it is arguable whether the country should continue to be dependent on exports for such a large percentage of its GNP, it has nevertheless to be recognised that a substantial reduction in the dependence of the country on exports does not seem to be feasible in the foreseeable future. Apart from the export oriented plantation sector that we have inherited from the colonial past, the principal reason for exports continuing to play a significant role in the development of this country is the limited size and purchasing power of the home market in Sri Lanka. For most production units, be they in the field of agriculture or processing industry or manufacturing industry, the home market does not provide a viable base for their economic survival and normal advancement and hence a wider market base is a *sine qua non* for the expansion of agricultural and industrial production. In many instances even production units employing simple, unsophisticated technologies have not been able to operate economically when their marketing horizons were limited to the home

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market. A notable example is the handloom industry, which has enjoyed the protection and patronage of the Government for several years. Despite such Government support, improvements in relatively elementary needs of the industry such as loom-size, dyeing and designing could not be carried out on the basis of the home market alone.

It is a well known fact that the efforts of successive governments in Sri Lanka over a quarter century (from the post Korean boom period of the early fifties to 1977) to develop the economy through import substitution policies, coupled with import restrictions, proved to be a failure and involved a very high real cost to the economy. The result was a prolonged period of economic stagnation with a growing rate of unemployment. Consequently, developemnt of production in Sri Lanka, with a few exceptions, will generally have to be geared to a wider market base than the home market and the choice of the factors of production, right from the beginning, will have to be determined by the opportunities and requirements in foreign markets.

The failure of unrealistic import substitution policies has been a feature of a number of economies—both large and small, industrially developed and under-developed. Studies carried out by international bodies on a cross-section of countries at different stages of economic development have shown that there is a correlation between the growth of export and the growth of the GNP : countries with a high growth of exports have achieved a high rate of growth of the GNP and vice versa. That exports act as an engine of growth in most economies is now widely accepted the world over. The following figures relating to the experience of Sri Lanka and some of her neighbours in South East Asia during the early seventies are illustrative of this :—

Country	*Export Volume Index*		*Value in US $ Millions*		*% Increase in value*	*GNP US$ Millions*		*% Increase of GNP*	*% Per Capita Real Growth Rate*
	1970	*1976*	*1970*	*1976*	*1970/76*	*1970*	*1976*	*1970/76*	*1970/76*
Thailand	100	199	686	2,934	327	7,050	16,230	130	3.6
Phillippines	100*	172	1.064	3,011	183	7,660	17,810	133	3.7
Singapore	100	146	1,447	6,150	325	1,900	6,150	225	7.3
Taiwan	100	393	1,469	8,035	447	5,490	17,500	219	5.7
S. Korea	100	557	882	7,814	786	7,910	24,050	204	8.2
Sri Lanka	100	95	338	556	65	1,420	2,750	94	1.1

* (Base year 1972)

Source : International Financial Statistics, January, 1978.
World Bank Atlas 1977.

Thus, even though the concept of export-led economic development might be a debatable issue, there is no gainsaying that exports must play a key role in the economic development strategy of a country such as Sri Lanka.

Export and Employment Generation

In recent times, the perception in developing countries of the export development process and its goals has undergone very substantial changes. There was a time when expansion of exports was viewed solely in terms of expanding foreign exchange earnings to bridge balance of payments deficits. Today, it is recognised that there are more important export development goals. In a country such as Sri Lanka, where unemployment is the most acute problem faced by the country, the expansion of exports must have as its first objective the creation of new employment opportunities. It is now amply clear that the very limited scope for development based on import substitution oriented agriculture and industry is totally inadequate to absorb any significant segment of the unemployed work force of this country.

Moreover, since much of the unemployment is in the rural sector of the country, exports should generate employment opportunities in the rural sector—otherwise the benefits of export development would bypass the major part of the country and we would be in the situation of certain countries, who have done extremely well in exports, but where the benefits of export expansion have accrued only to limited urban and sub-urban areas. In a country which is committed to a fair distribution of the fruits of development, any developmental activity, including export, must be made to contribute directly to the improvement of the standards of living of the people at large.

The Sri Lanka Export Development Board, therefore, has deliberately opted for an export development programme that will achieve these employment objectives. High priority is accorded to labour intensive exports (e.g. exports of agro-based products and craft industries) that will have extensive spread effects throughout the economy and improve rural incomes, even though such ventures involve more time and effort than, say, light manufacturing industries. Rural sector oriented export development, far from being a distant hope, is now being put into effect and promises to become an important arm of the country's export effort.

Apart from generating employment opportunities in quantitative terms, exports have had the effect of upgrading the quality of human skills. The stiff competition faced by export in foreign markets has contributed to the development process an acute awareness of the need for improvement in technology, product adaptation, quality control, adherence to delivery schedules and—most important of all—building up of competent managerial cadres. Enterprises catering to the comfortable home market have achieved little in this direction for the country.

Exports and Import Needs of Development

It is a well known phenomenon that acceleration of the pace of economic development in a developing country results immediately in a rising demand for consumer goods as well as for capital goods and intermediate products required to meet developmental needs. While some part of the import bill is financed from foreign exchange receipts from factor services, non-factor services and private transfers, the bulk of it has to be paid for through increased export earnings. This is such a commonplace fact of economic life that we tend to lose sight of it. The following figures indicate the magnitude of Sri Lanka's balance of payments problems, even though part of the trade deficit is explained by factors such as the deterioration in the terms of trade of Sri Lanka :—

Balance of Payments 1980, 1981 and 1985

(In US $ Million at Current Prices)

		1980	*1981*	*1985* (Projection)
1.	Merchandise			
	(*a*) Exports	1,064	1,221	1,991
	(*b*) Imports	2 049	2,188	3,809
2.	Trade Balance	985	967	1818
3.	Non-factor Services (net)	79	108	274
4.	Factor Services (net)	27	86	168
5.	Private Transfers (net)	137	176	500
6.	Current Account Balance	796	769	1,212

Source : Public Investment 1981–1985
Ministry of Finance & Planning
May 1981 pl.p 3–4, 13–24)

In the long run, there can, be no development unless exports can pay for a substantial part of the cost of the import needs of development.

Moreover, in the long run exports must also be able to pay for the country's debt servicing, which stands today at about 12.4% of annual export earnings. Since it is the Government's intention to obtain commercial loans to meet certain needs, it is probable that the country's debt service ratio will tend to be higher in the future.

Against this background, exports arising from the tree crops sector, which continue to be the mainstay of Sri Lanka's export trade, do not offer prospects of an appreciable increase in export earnings in the medium term. Unless other agricultural and industrial exports can be developed speedily, it will be difficult to maintain a satisfactory pace of development.

The Institutional Infrastructure for Export Development

The Government of Sri Lanka has, therefore, committed itself to develop exports as one of the cornerstones of its new economic policy. In fact, one of the first priority projects undertaken by the Government soon after it came into power in 1977 was the establishment of the Greater Colombo Economic Commission by an Act of Parliament to organise and operate an export processing zone for attracting foreign investment into export industries.

Although this has been a successful venture, the Government nevertheless recognized that the entire economy should be brought into the national export effort if the benefits of export development are to be widespread and durable. To achieve this goal in a country with hardly any tradition of exporting—other than in a handful of primary products—the total commitment of the Government at the highest political level was needed, since the development of exports requires a mix of policies, incentives and management arrangements that fall within the purview of several Government agencies. The unequivocal position of the Government in this regard has been demonstrated by two major steps. Firstly, the Export Development Act No. 40 of 1979 establishes an Export Development Council of Ministers under the Chairmanship of the President of the Republic to provide guidance and direction, at the highest level of Government, to the national export effort and, secondly, national export development has been declared as one of the lead projects of the Government which is accorded the highest priority in the allocation of resources.

In keeping with the Government's recognition of the indispensable co-operation of the business sector in export development, the Export Development Act provides that the executive instrument of the Export Development Council shall be a mixed public-private sector body, the Export Development Board. The Board is charged inter-alia with advising the Export Development Council on export policies and programmes, assisting in their implementation and monitoring progress.

To facilitate the Board's task in specific product sectors or functional aspects of export development (e.g. export financing), the Act provides for the establishment of mixed public-private sector Advisory Committees which would have the ability to give detailed consideration to the needs in each area and a number of such Committees have already been established. In addition, the Board has encouraged the formation of product associations of producers and exporters with a view to having a continuing dialogue with the business sector on ways and means of developing exports.

Having regard to Sri Lanka's employment and foreign exchange needs in the medium term, it would not be overly ambitious for the GCEC and the EDB together to aim at new investment sin production for export of a minimum of Rs. 1 billion per annum which in turn will generate annually in the third year and thereafter new exports of the order of thrice the initial investment.

The Goals of Development and Tasks of Administration

V. T. NAVARATNE*

" DEVELOPMENT " is a very common word in the vocabulary. Its dictionary definition is " growth, expansion, evolution." But the term has assumed and gathered significant characteristics in the societal and national contexts. According to Gunnar Myrdal it is the " upward movement of the entire social system " and N. M. Obuobisa describes it as " the transformation of man and his total environment in a manner that improves his conditions or circumstances."

In fully developed & modernized societies, development would mean striving towards full employment, the 35 hour week, higher technological advance. In developing societies like ours, development is the increasing of the GNP, per capita, modernization through basic technology, and at its least, the relentless struggle to bring up all our people above the poverty line.

Over the last thirty years, ever since the birth of the United Nations " Development" has developed from a concept to a virtual ideology. Development' has been the thrust, the strategy, the theme, at national, regional and international discussions and debates.

However, the meaning of development itself has been undergoing continuous change. In the 60's it was simple and direct. In order to solve social problems such as poverty and achieve the economic and political status of modern states, the poor countries needed development, which could be measured in terms of the gross national product. It was possible to accelerate the process through trade/aid : questions of distribution and improving the quality of life of all the people could be taken up later when " the cake was big enough to be cut up." This theory began to lose credibility in the 60's itself. Even in countries where the per capita income increased to about " developed " levels, development benefitted only a few. The realization led to a re-definition of the meaning of development. Such a redefinition resulted in general agreement that a country was not achieving development unless in addition to its increasing the G.N.P., unemployment and poverty was also declining. There should be " redistribution with growth."

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The " Energy Crunch " of the 70's added a further dimension to the meaning of development. With the aid giving capacity of developed countries seriously affected, another element was added to the meaning of development—self-reliance, a movement away from dependancy, not in the sense of autarky but the adoption of a selective approach to external emphases of all types.

Particularly in the developing countries development is considered the sole responsibility of governments, the public sector. The entire evolution of human societies shows that various factors must come into play for a satisfactory degree of economic development to be attained. Foremost among them are individual or private enterprise and action by public authorities. These two factors must achieve a synthesis to achieve the goals particularly of economic development.

Therefore, a heavy responsibility is also cast on the private sector in the achievement of the goals under the development process. This presumes that the motive of profit, undoubtedly important, should not be the only criterion in the private sector. If the private sector confines itself mainly to trade, as it gives the quickest turn-over, and if productivity in the country does not increase, it will get caught in the dilemma of its own creation, reduction of purchasing power.

Therefore, the private sector has to play its own role in development, in embarking on activities which will, while making profit, also contribute to increase in productivity. The significant role that both sectors can play has been demonstrated in this country, in the field of tourism. Other fields and other sectors also await the initiative of private enterprise to accelerate the process of economic development.

Out of the combined Asian experience has been hammered out a set of development goals, namely—

(1) to promote economic growth and social justice, which would lead to a more equitable distribution of the benefits of development as well as more balanced development between groups/parts/sectors in the country ;

(2) to give more opportunity and benefits particularly to the poorer and disadvantaged members of Society ; and

(3) to promote development that would allow greater participation of the people in the development process.

In conceptual terms development in the Asian context has been defined as the forward movement of the Social system. In terms of goal orientation it is a target group oriented anti-poverty strategy with maximum people's participation. Common to both definitions is the notion that development is a change process, it involves planned efforts, and it is more than economic growth per se.

Public Administration, defined as the process of achieving national goals or objectives through public organizations, has become a critical element in the national development process. This results from the greater role of states in guiding and managing economic and social development and the increasing tasks which have to be assumed by Governments.

Generally in developing countries Public Administration systems have tended to lag behind national development needs. This was because many of these countries, newly emerging into independance inherited law and order and revenue collecting administration systems which had been evolved to meet colonial needs.

Administrative reforms have been introduced from time to time, but they have not been the result of a continuing appraisal of administrative needs but have been more ad-hoc responses to situations which developed. While considerations of national development might have provided the impetus for administrative improvements, development planning was not always used as the specific frame of reference for administrative reform measures. Their assumptions and strategies in many cases continued to be based on the concept of public administration as a static system, with improvement confined to rationalization and reorganization of Public Administration within its prevailing philosophies and practices. Such approaches had an ameliorative/incremental effect on Public Administration systems, but the resultant systems have become inadequate in the context of new challenges.

For Public Administration to be geared to meet the need of development and made adaptable to changing requirements is it imperative to apply more specialized and sophisticated approaches and also adopt long term and medium range measures. Long term measures for Public Adminisiration improvement should seek to introduce qualitative changes and define broad goals and perspectives. For immediate purpose improvement measures have to be specifically related to requirements of development plans and programmes.

Viewing Public Administration from its role in development, there is need for a variety of competance in organizational systems, personnel and procedures and interdependance among various components and processes of administration required for carrying out the tasks involved in administration for development. This needs a continuous appraisal of administrative structures and procedures which can be met only by institutionalizing administrative reforms.

The idea of institutionalizing management improvement was pioneered and became popular in the mid 1940's in certain developed countries in the reconstruction era following the Second World War. Such an approach was greatly influenced by experience gained in the Second World War when efficient management was emphasised as a means of rationalizing the use of scarce resources. During the 1950's and thereafter, developing countries have followed their example as a necessary pre-condition to accelerate economic and social development.

Administrative Capability is an increasingly important factor in economic and social development. It enters into the entire process of formulating, activating, evaluating and re-adjusting development plans, both national and local whether public, mixed or private. Problems of plan implementation have led to deep concern over administrative incapability. Hence the increasing awareness of the need to spend time, money and resources on increasing administrative capability which is itself a scarce resource.

In its simplest terms, administrative capability is the capacity to get results through organizations. The capacity to do this nationally depends to a large extent on administrative capability in single organizations, and in various, and geographical areas of a country.

It is only possible to provide suggestions for improving administrative capability if we first understand the role of the development administrator. It has been suggested that the role of a development administrator is that of a " change agent." Others have considered his role is to manage " orderly change " while it has also been suggested that he has to be an " innovator." His role has also been narrowed down to one of being an implementor not involved in the formulation of policies.

A development administrator has a much wider role to play. He is not only an implementor of policies but also inescapably responsible for and ivnolved in developing policy and programme options. His role is to serve as an instrument for the formulation and accomplishment of development goals. On the basis of this role, his tasks could be—

(i) formulation of policy/programme options ;

(ii) management (planning, organising, staffing, directing, controlling, reporting and budgeting) ;

(iii) evaluation of achievements and resource utilization ;

(iv) conflict resolution, i.e. the need to adjudicate between different interests that make demands on scarce resources ; and

(v) effecting behavioural and attitudinal changes in the people necessary for the successful implementation of development programmes.

There is a belief that economic development planning is purely economic in nature or that only economists or econometricians are qualified to give expert advice on planning. The expert advice offered by economists and econometricians is indispensable for development planning but their theoretical knowledge should be combined with practical administrative experience or the should work together with administrators.

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The first task of the development administrator is to undertake, or promote the study of the system of Government within which he operates, and the most appropriate machinery required to fulfill his role to ensure that it is consonent with the demands of the constitution, economic and social policies, manpower development, local institutions and social and sociological susceptibilities of the ordinary people.

Secondly, the development administrator should attempt to identify the most important targets within policies and activities of the Government in the political, economic and social or cultural areas. While political and Social problems are of the utmost importance, it is a fact that the economic targets within the policies of Governments are the ones which occupy pride of place in the consideration of all of them. They have the first call on the resource available to Governments for the development of their countries. It is of the utmost importance therefore that the development administrator should understand and accept the role he must fulfill in the field of economic development.

The tasks before the development administrators are, therefore, formidable. It is essential therefore, to provide them with the necessary requirements to fulfill their tasks. The more important among them would be :—

(i) Training should be provided to impart knowledge, skills and attitudes relevant to development tasks. Development Administrators need to have a broad understanding of concepts relating to economic and social development and should also be well-versed in administrative techniques including planning, programme formulation, communication, co-ordination etc. ;

(ii) Opportunities to participate in research and publication activities should be provided to enable them to develop, inter alia, conceptual and reporting skills ;

(iii) Adequate financial and other resources should be made available ;

(iv) Proper working environment should be created that will encourage participation, creativity and innovation ;

(v) Adequate salaries and benefits should be provided to enable them to live modestly without having to engage in other employment ;

(vi) Protection should be provided from political reprisals and unjust treatment ;

(vii) Decision-making powers commensurate with responsibilities should be delegated to afford them some autonomy and control in the execution of their tasks ;

(viii) An attitude of professionalism should be fostered among them so that achievement-based performance is self-motivated rather than externally imposed.

The improvements of administrative capability for development by the adoption and use of management techniques has also to be considered. Management techniques comprise concepts, approaches and analytical methodologies, operational procedures, tools and aids which are relevant to one or more functions of management, for instance planning, decision-making, organization, co-ordination and controlling. These techniques are supposed to increase the rationality and effectiveness of administration and otherwise facilitate the management of large scale organizations.

Science and technology cannot be harnessed in the interests of national goals without sophisticated organizations and effective management systems. Development planning which has emerged as a major function of public administration, cannot be performed without resort to a wide spectrum of conceptual, analytical, and other management tools.

To provide for use of modern management approaches and techniques in public administration, changes are needed in organizational systems, public personnel policies and practices, and training of public services. They all add upto to the recognition of the development of modern management capability as an explicit and urgent matter in public administration.

This leads us to question of personnel and career structures. If full potenitial of modern management approaches and techniques is to be realized it means the enlistment of a variety of new specialists and technicians in the public service. The career structures with their emphasis on permanence of employment, seniority and pension systems tend to make them closed services, with entry possible only at the lower levels. New demands in public administration call for greater mobility both within the public service and between the public service and the society at large. In order to encourage such mobility public personnel policies may have to be modified considerably. Public personnel systems will have to recognize the need to being in new skills through means such as laterral entry into services and up-dating knowledge and skills of incumbents.

The importance of training in the development of Administrative Capability cannot be over-emphasised. Administrative Development is in a sense the strengthening of the capability to play an accelerating role in Socio-Economic Development. Administrative Development and Human Resource Development are very much interdependent. In recent years training has gained an incerasing recognition as a strategy for achieving organizational purposes and as an importnat component of effective change. Along with the recognition of training as a viable organizational device is a growing realization among Public Administrators that training is a major tool for effective Development Administration. Tremendous development has taken place in human resource development technology in recent years. Many ideas and concepts in the field of training could help to improve both individual and organizational performance and organization as a whole. It is now generally accepted that the entire business of training and development is to help organization to be more effective in the delivery of goods and services.

For training to be effective in Management Development and the improvement of Administrative Capability, there are many aspects that have to be looked into. Some of these are, commitment of the political leadership towards training, support of the managerial class, identification of training needs, co-ordination among all interested parties and the development of Training Institutions. Training should not be seen as marginal to an organization and as a fringe benefit to employees. The talent and potential that every organization has is a tremendous reservoir that management could harness to meet the needs of organizations. The problem lies in finding out how to go about harnessing the talent and potential. Training could be the key to bringing about organizational change and renewal.

Regionalism is arrived at ensuring a more general and consistent development and has its main aims to increase the gross national product while ensuring to a better per capita distribution of income, to provide more employment through industrial decentralization and the promotion of various activities peculiar to each region, and to improve national integration.

The creation of administrative regions implies changes, on the one hand in the existing organization and, machinery through decentralization, deconcentration and participation, and on the other, linked with the creation of a new and viable entity, a new political administrative level of action.

Masahiko Honjo sees regional planning as " a viable mechanism for emerging the message of national planning nearer to the people and in return getting the feed-back to the Central Government. Thus he sees as the " role which is expected of regional planning funtcions in Government, particularly at a key sub-national level. As such regional planning has a special role to play on the whole context of planning and development of a country. It is the linkage between planning at the national level and reality at the grass root level."

In Sri Lanka traditionally local Government has been concerned with the provision of Social Services and not with development oriented functions. The priorities for development, and the political context has demanded much more regional develoment through regional devolution. The problem was identified and the concept developed with the District Political Authority in 1973, reached maturity with the District Minister system in 1978, and has seen fruition with the proposal accepted by the Government to set up District Development Councils.

The political commitment has been made clear and it is now the task of Development Administration to harness regional development to the national development process. The sub-national units must be provided with the staff, finances and other administrative infrastructure essential for the effective implementation of their assigned functions. It is also the task of development administration to develop with a great deal of senstivity the linkages that have to be established between the Councils, the regional execution authority, and the centre. It is also the responsibility of development administration to ensure the two-way movement i.e. the policies and resources of the centre to reach the remotest and the most disadvantaged of the land and popular participation of all the people in the tasks of national development.

An area which has remained rather neglected is the interface of public administration with private enterprise. The contribtuion of both sectors is essential to the success of development plans and goals. Public Administration capability greatly influences the performance of the private sector. It is, therefore, necessary to constantly undertake systematic review of economic regulations or of administrative measures to co-ordinate the contribution of the private and public sectors to national development.

In the final analysis, the harnessing of public administrative systems for achieving development goals is primarily one of human resource development. Human resources are the sum total of knowledge and capacities possessed by human beings in manpower context. The development potential of a nation depends primarily on its available human resources, and not so much on its natural resources or of capital. The development of human resources consists in creating the opportnities and strengthening the capacities of human being to carry out their work.

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A New Look at Small Hydro Power Plants

L. W. De Silva

THE continuing energy crisis, the sharp increase in fossil fuel prices in recent years and the OPEC reports and its warnings on oil and other natural energy reserves have recently excited worldwide interest in energy resources. Research in alternative renewable energy resources has been stepped up in most countries and one area that has received wide attention, both in developing countries as well as in industrialised countries, is the exploitation of small hydro power resources.

The generating system in Sri Lanka is predominantly hydro based with limited thermal support from steam, diesel and Gas Turbine plants. Thermal plant is usually used to back-up hydro shortages during periods of low rainfall in reservoir catchment areas and sometimes to tide over shortages immediately preceding the commissioning of new hydro plants. The availability of thermal plants as a back-up to the hydro system enables the optimum utilisation of the water in the storage reservoirs of the Hydro System. In the recent past, hydro electricity has provided nearly 85% of the electric power requirements in Sri Lanka whilst a few years ago, during some years of good rainfall, almost 100% of the electrical needs were met from hydro power.

At present seven hydro power stations with an installed capacity of 329 MW have an annual energy capability of 1,500 GWH. These are supplemented by three thermal stations with a combined effective capacity of nearly 50 MW and capable of providing about 220 GWH per year. The three Gas Turbines installed recently have a capacity of 20 MW each. It is expected that by the end of 1981, there will be 6 of these Gas Turbine units in the CEB system.

Two relatively small hydro electric plants are in late stages of construction, viz : Bowatenna (40 MW—108 GWH) scheduled for commissioning in mid 1981 and Canyon (30 MW—144 GWH) scheduled for end of 1982.

Over the past 3 years in particular, the power requirements in Sri Lanka have increased dramatically at an average annual rate of almost 14%, compared to a growth rate of around 6.5 % in the preceding years. At the same time the likely delays in the completion of Bowatenne and Canyon Hydro Power Stations were foreseen. In order to meet the expected energy shortfall arising from the combination of these factors and also to improve the thermal back-up to the present system, a decision had been taken to install gas turbines of 60 MW capacity in the first phase and a

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further 60 MW in the second phase. Three units of 20 MW each are already in operation and all 6 units are expected to be operational by the end of 1981. The gas turbines are being presently operated to meet the system energy shortfall and not for meeting peak demand alone. The cost of generation by gas turbines is nearly Rs. 2.40 per KWH for fuel alone on present oil prices. This cost will be somewhat higher when depreciation and other costs are included.

Till recently, hydro-electricity has provided the major portion of the electric power requirements in Sri Lanka. During the period 1974 to 1978, hydro electricity has provided more than 98.5% of the total requirements. Table I gives details of the hydro power and thermal power generated during the last 10 years.

TABLE I

Electrical Power Generation

Year	*Total Units generated Million KWH*	*Units generated from hydro plants M. KWH*	*Units generated from thermal plants M. KWH*	*Percentage Thermal*	*Pecentage Hydro*
1971	849	825	23.7	2.8	97.2
1972	944	846	98	10.4	89.6
1973	977	696	281	29	71
1974	1,011	997	14	1.4	98.6
1975	1,078	1,076.5	1.26	0.1	99.9
1976	1,132	1,108	24	2	98
1977	1,217	1,215	2.1	0.17	99.83
1978	1,385	1,366	19	1.37	98.63
1979	1,525	1,461	64	4.2	95.8
1980	1,668	1479	189	11.3	88
1981 (up to June)	848	645.6	202.4	23.9	76.1

In 1980, nearly 11% of the total energy has been supplied by thermal plants. In 1981, up to June, 202 million units have been generated by the thermal plants, forming 23.9% of the total. Projections indicate that much more thermal generation will be required in the years 1982, 1983 and 1984, the estimated figures being 857, 960 and 981 million units in the respective years constituting 35.6%, 35.4% and 31.5% of the total energy demand. Even at current prices, the oil bill for this scale of thermal generation will be extremely high. For 1982, the fuel cost alone is estimated to exceed Rs. 1,500 million.

The major hydro power plants planned for development are Victoria, Kotmale, Randenigala and Rantembe under the accelerated Mahaweli Development Programme and the Samanalawewa on the Walawe Ganga.

For a small island of its size, Sri Lanka is fairly well endowed with hydro electric potential. In the wet zone there are 20 river basins with an estimated run-off of nearly 21 million acre feet per year while in the dry zone there are 83 river basins with about the same annual run-off. Certain studies have been carried out and reports prepared covering some of the larger rivers with hydro power potential. Wimalasurendra (1918), Pfeiffer 1958, UNDP/FAO 1968 are some of the important studies. The total hydro power potential of these major sites has been estimated at different times and vary from 1,500 MW to 2,000 MW. It is expected that nearly 1000 MW of hydro-electric plants will be in operation by 1990, thrice the present capacity.

There has been no systematic basin-by-basin study undertaken so far to establish the gross theoretical hydro-electric potential in Sri Lanka, although some data is available regarding certain multi-purpose projects which have hydro power potential also in them. The previous studies on hydro power potential have been carried out more than a decade ago. In the Pfeiffer report as well as in the UNDP/FAO report it is stated that some of the potential sites have not been studied, particularly those where the power potential was considered small. Also under the Mahaweli Ganga survey report, it is stated that 29 projects exclusively for hydro-power development have not have been studied in detail. It has to be also noted that projects considered to be economically not viable 10 to 15 years ago could be highly viable today, considering the extremely steep rise in oil prices during this intervening period. The urgent need for investigation of all potential hydro power sites so as to examine their technical feasibility and economic viability has been emphasised in the past and it is hoped that such a study will be undertaken without delay. With such a study it would be possible to draw up a master plan for the development of the hydro power resources on a planned basis to meet the power needs of the country.

Mini hydro projects have certain limitations and those plants have to be considered in their proper perspective. They could never replace the necessity for the development of the major hydro projects, whose potential in Sri Lanka has been estimated to be around 2,000 MW according to some of the studies referred to earlier.

However, Mini Hydro Plants do have certain attractive features and some of these are of special relevance to Sri Lanka.

(*a*) These plants can be installed and commissioned within a much shorter period when compared to the larger hydro power projects, which involve major civil construction works on dams, tunnels, etc.

(*b*) The cost of the individual projects are small and could be accomodated within the resources allocated to the power sector. This is an important factor when one considers that some major hydro power projects of high economic viability have not been taken up for construction purely because the cost of construction would run to several billion rupees and it has not been possible to allocate that scale of funds for development work in the power sector alone.

(*c*) Some of the mini hydro development projects could be undertaken by the consumers themselves, e.g. the individual estates in the plantation sector. This would relieve the CEB of this capital outlay.

(*d*) The unit cost of development of mini hydro projects, i.e. cost per KW of installed plant compares favourably with the unit cost of major hydro power projects.

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(*e*) The unit cost of energy from mini hydro plants would be considerably cheaper than those generated by gas turbines. This becomes very relevant in the present context when gas turbines are required to be operated at high plant factor to meet energy shortfalls on the system.

(*f*) Small scale hydro-electric units could lend themselves to significnat cost reductions through local enterprise.

(*g*) Mini hydro plants could reduce losses on the national grid system.

A brief review of the development of small hydro power plants in some other countries reveals that before 1920 most hydro-electric plants were small facilities built on streams and tributaries at sites with relatively low head. Technological developments during the 1920s and 1930s enabled the construction of large hydro-power projects, some of them with plant capacities exceeding 1000 MW. Many of these projects included large storage reservoirs.

Arising from this pattern of historical development, many developed countries fairly well endowed with water power resources have a large number of old small hydro power plants. For example, Japan had 1350 small hydro stations, with a total capacity of 7,000 MW. contributing nearly 6% of the nations' generating capacity in 1972. France had some 2,200 small hydro station , with a capacity of nearly 1,800 MW in 1972, contributing nearly 4% of the total generating capacity. Finland had about 175 small hydro plants in 1975 with a total capacity of over 300 MW comprising about 5% of total capacity.

In many cases, the small hydro-electric plants were taken out of operation when expensive repairs or overhauls were found necessary or when larger plants that had lower operating costs were connected to an integrated national system. More than 800 small hydro plants in Norway are reported to have been abandoned during the last 50 years. In the United States at least 750 had been idling in the last 40 years.

Most developing countries have paid inadequate attention to small hydro resources. They had embarked instead on building large hydro power stations and transmitting this power even over long distances to meet the requirements of urban areas. Although small hydro plants, due to very limited storage, may be susceptible to variations in stream flow and may sometimes require capital investment larger than for diesel plants, it has to be appreciated that they require no fuel and need little maintenance.

China is one country that has made much progress in developing small hydro resources. Published information indicates a rather widespread and reliable technology for developing small-scale, low head hydro-electric plants. As of April, 1979, it had nearly 88,000 small hydro-electric stations with a cpacity of 5,380 MW. Literature indicates their growing popularity in rural areas where thousands of units of less than 100 KW capacity have been installed including one wooden turbine for a 10 KW hydro-electric plant. Most of these plants provide the power required for irrigation and drainage pumps although electricity is also supplied to meet the needs of agricultural processing.

In the United States, the Department of Energy has initiated a program for the development of small hydro-power plants. The objective of this program is to encourage Municipalities, electric co-operatives, industrial development agencies non-profit organisations and individuals to undertake the revival and construction of small hydro electric power stations. A recent survey has identified over 3,000 small hydro power plant sites most of which had discontinued operation during the period 1930 to 1970. The survey has also revealed that over 2,100 of these sites, with an installed capacity of nearly 1,300 MW could be readily brought back into service to resume power production. Recent pronouncements clearly indicate that the earlier trend is reversing and that small hydro power plants are being promoted as a viable alternative energy source.

Traditionally, the construction of hydro-electric projects required detailed engineering studies and the designing of equipment to suit the particular hydraulic features of the site. The recent revival of interest in small hydro plants however has motivated manufacturers in several countries to introduce standardised or " packaged " units with a view to reducing costs. For each power output, several turbine designs are offered to suit varying heads. The turbines, the governors and the generators can be factory assembled and joined to form a " packaged " unit that is compact and light enough for easy transport. Erection costs are reduced by minimising the need for skilled personnel at the construction sites. There are several firms in U.S., England, West Germany, France, Switzerland, Hungary, Japan, India, China etc., that manufacture small hydro-electric units for outputs from 3 KW upwards at heads ranging from 4 metres and above.

Electricity was introduced to Sri Lanka in 1895 when the capital city of Colombo was provided with electricity. As in many other countries, this supply was provided by small diesel engine plants. The supply was operated by a private Comapny and although the government acquired this company in 1929, the pace of electrical development was very slow and even by 1929, the installed capacity was 2.4 MW and the maximum demand only 1.9 MW. The first major hydro power station to be constructed was the Laxapana Power Station with an installed capacity of 25 MW. This station was declared open in October, 1950.

In the field of mini hydro power there had been much activity for a very long period. Even as early as 1924 mini hydro power plants had been installed in a few estates in Nawalapitiya, Talawakelle and Norton Bridge areas. Within the next 10 to 15 years, several other estates in Nuwara Eliya, Kandy, Matale, Badulla and Ratnapura Districts had followed suit and by this time there were more than 50 estates operating their own mini hydro power plants. The Government Electrical Department itself operated a small hydro power station at Blackpool and provided supply to the Nuwara Eliya Town. Another mini hydro station operated by the Electrical Department provided supply to the Hatton/Dickoya town as well as to a few estates in this region. In fact the construction supply for the Laxapana Stage I was provided from this same mini hydro station. Some of these power plants installed as far back as 1924 are found to be still operational. These hydro installations are of very simple technology and had proved to be so reliable that the then British owners of these estates decided not to replace them with diesel driven alternators although such diesel plants were relatively cheap and economical to run during the pre-1973 era of cheap and abundant oil.

A survey carried out in 1979 has revealed several interesting features of these small hydro schemes in the plantations. Most of the units installed prior to 1930 provided D.C. supply whilst most units installed after 1930 had A.C. supply. The capacity varied from 5 KW to well over 200 KW. The largest unit was found to be in an estate at Watagoda and had a rated capacity of 238 KW generating A.C. and feeding a 3.3 kV system. The year of installation is indicated as 1930 and the plant was found to be operational and in sound mechanical condition. As the generated power is in excess of the needs of this estate, the surplus power is transimitted over a 3.3 kV line to the adjoining estate, which draws its balance power requirements from the CEB system. In another estate at Dickoya, exactly half the factory load is still on their own hydro power unit whilst the balance requirements are obtained from the CEB system. The largest installation is in an estate at Agrapatne and has two sets of 165 kVA and 112 kVA capacity. This estate relies solely on its hydro power sets for all its electricity requirements.

With the inauguration of the hydro-electric scheme at Laxapana, a comprehensive 33 kV distribution network was constructed to cover the estate areas. Several attractive incentives were offered to the estates to obtain their electricity needs for the CEB system. With this aggressive load promotion exercise, several estates abandoned their small hydro power plants, particularly if these were in need of repairs or replacement. This is borne by the fact that most of the small hydro sets now not in operation are found in estates which are connected to the CEB system. The survey referred to earlier (which covered only the Matale, Kandy and Nuwara Eliya districts) revealed that more than 50 estates have had such hydro power plants and that most of them were in operational condition.

Certain other surveys covering Badulla and Ratnapura Districts as well have also been carried out, particularly be the Plantations organisations and these surveys have revealed that at a certain stage over 100 estates have had mini hydro plants providing their power needs. Most of the plants had heads ranging from 100 to 250 feet. Some estates have used heads as low as 30 feet whilst some other estates were fortunate to have heads of over 280 feet. The plant capacities vary from 5kW to 238 kW but most estates had plants of capacity between 75 kW to 150 kW. In most cases water is available for operation of the plant throughout the year.

One remarkable feature evident from the surveys carried out on these mini hydro plants is that several of these plants have given over 50 yeras of satisfactory service without any specialised attention or major overhauls. Even the manufacturers of some of these plants are no longer in existence. Detailed examination of some units that are now out of commission has revealed failures due to corrosion of pipes and valves and erosion of turbines and casings. Turbine speeds are generally controlled by mechanical governors and in some installations, these governors were found to be out of order. Of the electrical equipment, some generators were found to be burnt due to overloading, whilst in some others, the automatic voltage regulators were found to be out of commission. In regard to civil engineering works, it was found that in some installations the open canals supplying the reservoirs are leaking at several points and that reservoir bunds were damaged. It is generally believed that the availability of cheap power from the national grid was the primary reason for the owners to neglect these plants particularly when these were found to be in need of repairs.

Considering the energy shortage now experienced and the anticipated energy shortfalls in the coming years, the revival of these small hydro power plants in the hill country regions deserves serious consideration. As a first step, action could be taken to put back into commission, the small hydro power plants which are not operational at present. By proper planning and design, it would be possible to appreciably increase the output from these plants. Most of the existing schemes had little or no storage of water and the provision of suitable pondage by the construction of a small dam would increase the energy output quite appreciably and also make the units operational almost throughout the year. Where the units have D.C. generators, the replacement of these bulky D.C. generators (of pre-1930 design) with standard 50 Hz alternators of modern design could also effect considerable improvement in output and efficiency. With these modifications, it would be possible for most of these estates to have mini hydro plants with capacities of 100 to 150 kW.

In the course of the surveys earlier referred to, it has been found that a number of plants presently not in operation could be put back into commission at very nominal costs, which could be recovered in a few months in the form of savings in electricity bills. As these estates are already connected to the CEB distribution network, the two systems can operate independently, the CEB supply serving as " stand-by ". This will eliminate the need for costly equipment which are required if the two system are to work in parallel.

The re-activation of nearly 100 mini hydro stations in the estate sector could bring about several benefits including the following

(*a*) Relieve the energy demand on the CEB system by about 36 million units per annum;

(*b*) Reduce the losses on the CEB network;

(*c*) Considerable savings to the estates in their electricity costs;

(*d*) Reduced production costs even though this may be small;

(*e*) Reduce the quantum of energy to be generated by Gas Turbines in the CEB system. This will effect savings in the national oil import bill. (The cost of fuel alone for the generation of 36 million units by gas turbines will be about Rs. 86 million at current oil prices);

(*f*) Gaining experience and expertise in the design, installation, operation and maintenance of mini hydro plants to suit particular local conditions.

The estates which operate their own small hydro units to meet their electricity requirements in part or full should be given every encouragement and incentive not only to operate and maintain their plants but also to improve their performance and to expand these schemes where it is technically feasible. The provision of technical advise and financial incentives to these estates could assist considerably in such a program.

The re-activation and improvement of the mini hydro plants already available in the estate sector should form only the first phase of development of mini hydro power. The second phase should be the installation of new plants in other estates where suitable sites for development of mini hydro power can be identified in the upper reaches of streams and tributaries in the estate region. The knowledge and experience gained in this first phase should enable much of this work to be undertaken by local enterprise thus bringing about significant cost reductions.

Another area where small hydro units could be installed is in the irrigation canals in the dry zones where steady water flows are maintained for irrigation purposes. Most of the major irrigation tanks in the North Central Province have water releases of 200 cusecs and over at heads ranging from 20 feet to 50 feet. For example, the Minneriya tank has a maximum discharge of 525 cusesc and an average discharge of 230 cusecs. Parakrama Samudra has an average discharge of 300 cusecs with a maximum discharge of 510 cusecs. Considering the present technology in this field, it would be feasible to install small hydro-power plants operating on the water releases from the major irrigation tanks.

In fact, as far back as 1963, action was initiated by the then Hydro Development Branch of the Department of Government Electrical Undertakings to construct a small hydro-power plant at Minneriya. The design envisaged a plant of 550 kW capacity. Designs and specifications were prepared and tenders were invited. Bids were also received. However, perhaps due to the proposal for the extendsion of the hydro supply to the Minneriya area from the National grid, this project for the installation of a small hydro-power plant at Minneriya had not been proceeded with.

With the diversion of the Mahaweli waters to the North Central Province, the prospects for this type of plant have further improved. This additional controlled supply of water to the Minneriya tank would improve the conditions of head at the outlet sluice and would now justify the installation of a plant of even bigger capacity. Minneriya tank is just one example. It should be possible to construct similar small hydro-power plants at other irrigation tanks such as Kalawewa, Rajangane, Parakrama Samudra, Padaviya, Kaudulla, Huruluwewa and Nachchaduwa.

In addition to these major tanks, there are almost 300 irrigation tanks of moderate size where small hydro-power plants of suitable capacity could be installed.

As the world moves from an era of low cost abundant energy to an era when energy costs are bound to rise and oil and gas are expected to become scarce, the technological trends of the recent past provide neither sound models for the future nor a sound basis for choice of technologies in developing countries. Many technologies adopted in the past few decades are becoming inappropriate in the industralised counties themselves and they would be even less appropriate in the developing world. The capacity of developing countries to meet some of their own technological needs has to be strengthened. One sphere in which there is much scope for such action is in the development of small hydro power resources.

Industrial Development in Sri Lanka

A. A. JUSTIN DIAS*

Early History

EVIDENCE of the pioneer attempts at industry in Sri Lanka emerges with birth of the initial agro-based, tea, rubber, and coconut industries in the distant years. Other than these primary manufacturies, no systematic or co-ordinated effort to originate industry in the land had been attempted till the 1930's.

During the late years of 1930s however, a "rough plan" for the establishment of several factories was evolved by the Government based on certain surveys which had been completed. The plan envisaged that industries should draw on indigenous raw materials and would not involve heavy capital expenditure. On this basis factories for the manufacture of consumer products such as Plywood, Leather, Quinine, Ceramics, Acetic acid etc., were constructed during the second world war. They were administered by the Department of Industries functioning within the Ministry of Commerce and Trade.

The next attempt at a fixed industrial policy did not materialise till the 1950's. Endeavours to attract private investment into industry was made in the early 50s with certain amendments in tax laws. The Income Tax Amendment Act No. 36-of 1951 exempted the profits of newly established private enterprises from income tax for a period of Five Years up to a limit of 5% of the capital employed. At this time, two reports referring to industrial development had influenced Government Policy regarding industry to a very high degree. These were the Report on Government Commercial Undertakings issued in 1947 and the Report on the Economic Development of Ceylon by the International Bank for Reconstruction and Development issued in 1952.

These Reports attempted to create a favourable atmosphere for private industrial investments.

In the same year a white paper on foreign capital was issued with the intention of attracting foreign private capital into industry. This document extended identical concessions to foreign investors as those granted to local industries.

The Advent of Corporations

In 1955 the Government introduced the Government-Sponsored Corporations Act No. 19 of 1955 by which Statutory Provision was vested in the Ministry of Industries to convert the existing State Factories managed by the Department of Industries into autonomous institutions to be run by Boards appointed by the Minister. There was also provision for the transfer of such industries eventually to private ownership.

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In 1957 the Government's policy in respect of industrial development provided for demarcation of industries into three large sector, namely those reserved for the Public Sector, those open both .for Public and Private Sectors. Further provision was made in the policy to take over malfunctioning Private Sector industries and place them within the Public Sector.

The industries reserved for the Public Sector were Iron, Steel, Cement, Chemicals, Fertilizer, Salt and by-products, Mineral, Sands, Sugar, Power Alcohol and Rayon. These industries were sestablished under the State Industries CorporationAct No. 49 of 1957. In addition to the above measures in the Public Sector, the Government also extended extensive incentives to the Private Sector, such as extension of the period for tax exemption, and grant of enhanced depreciation allowances awarded on a lumpsum basis on new industrial buildings, plant and machinery and protection by way of tariff and controls on importation of goods which were also locally turned out.

The reactions to these special concessions were favourable. Both in the private and public sector, investments in industry increased and a base for the build up of 'mixed' industrial sector began to emerge in the early 1960s.

Introduction of Regulation and Control of Industries

In 1961 steps were taken to regulate and control the Development of Industries in the private sector. Under this system licensing for importing machinery and raw materials was initiated. The licensing procedures adhered mainly to the recommendation and approval of the development division of the Ministry of Industries.

Further fiscal concessions were granted to industries by the Inland Revenue Act No. 4 of 1963. This provided for —

(1) the exemption from Income Tax of profits from the export of articles approved by the Government ;

(2) a development rebate on expenditure incurred in the purchase and installation of plant and machinery in new approved undertakings ; and

(3) tax relief on investments in approved industries. Concessionary rates on all Customs Duty were also given on the import of raw materials, machinery, equipment and components in the case of approved industries, that do not enjoy a protected market.

Early Incentives for Export of Industrial Products

During this time the Government also adopted encouraging measures to promote export of industrial products. Along with the tax holiday and export profits, provision was also made for refund of duties paid on raw material consumed for the manufacture for export orders and the deduction of advertising costs abroad. Further, a rebate on income tax equal to 5% of the value of goods exported was granted provided such exports resulted in a minimum nett earnings in foreign exchange of 25% of the F. O. B. value of the product, along with a waiver of excise duty and turnover tax on industrial goods exported.

Early Service Organisations and Plans for Industrialisation

In the field of services to industry, at this time the following institutions had been set up i.e. the CISIR, AICC. Development Finance Corporation, Small Industries Service Institute and the Bureau of Standards.

Towards the latter part of the history of industry in Sri Lanka it could be said that a fixed emphasis on industry emerged from the following formulated plans for industrial development.

(1) The 10-Year Plan for 1959/68 ;
(2) The 6-Year Plan issued in 1954 ;
(3) The 10-Year Plan and the 3-Year Implementation Programme issued in 1962.

The then increasing emphasis based on industrial development is shown in the following analysis of the above mentioned Plans. (Table I).

Table I

	Planned Investment in the Public Sector (Rs. M.)	*Investment in the Private Sector* (Rs. M.)*	*Total Investment in Industry (Rs. M.)*	*Total Planned Investment (Rs. M.)*	*Ratio of Investment in Industry to total Investment (Rs. M.)*
Six Year Plan (1954–60)	III	Not indicated	III	2,528	4.4
Ten Year Plan (1959–68) ..	1,973	771	2,744	13,600	19.9
Three Year Implementation programme (1962-64)	435	123	558	2,395	23.3

Measures to meet the Deteriorating Foreign Exchange Situation

It was during the early 60s that certain strict measures and controls were necessitated by a deteriorating foreign exchange situation. Measures had to be adopted that would control the set up of new industries at this time. The other factors which emerged as obstacles during this period for a rapid industrial development of Sri Lanka had ben the following :

(1) Limited size of the internal market ;
(2) Lack of technical knowledge of industrial processes ;
(3) Dearth of trained personnel ;
(4) Lack of feasibility studies and project reports ;
(5) Inadequacy of construction capacity ; and
(6) Inadequacy of information in regard to the existence and alternative types of utilisation of local raw materials.

Progress since 1967

Since 1967 during which year a contribution from industry to the GNP was 12.8% industrial activity increased and in 1971 a contribution of 14.2% was reached. During the period that followed however, the growth of industrial output declined. By 1976 industry contributed only 13% to the GNP. In real terms manufacturing industry had grown at an average of 6.5% per annum during the period 1971-76.

1972-1976

During the period 1972-76 policy objectives were indicated in the general guide lines given by the Planning Ministry which was set out in the Five Year Plan. It envisaged that particular attention should be paid towards identifying new project proposals for the development and manufacturing sector during the 5-year period that followed. It was also indicated that as far as possible proposals should be based on the following priority considerations:

(1) Projects based entirely on domestic raw materials ;

(2) Projects resulting in substantial employment generation ;

(3) Projects reaching production stage in the shortest time period ;

(4) Projects for which preliminary investigations have been completed ;

(5) Projects indentified for commencement during the Five-Year Plan period of 1972-76 which could not be taken up for want of resources.

(6) Other objectives.

During 1972-76 the performance of the private sector was poor. The main cause for this situation was a severe restriction of resources. Foreign exchange releases were restricted and a drastic quota system was adopted for importation of raw materials.

These conditions caused constant under utilization of capacity. Factories geared for high production capacity were forced to adopt stringent production programmes. The smaller industrial units bore the brunt of these restrictions and often traded off their meagre quotas of raw material rather than run their factories for exceedingly short periods, thereby negating the very principles of industry.

These stifling conditions created a sense of insecurity among these industrialists, who were also subject to severe survelliance by the authorities, especially by a select high powered striking force. This resulted in the inevitable erosion of the sprit of free enterprise.

During this time the absence of standard imported products afforded a leeway in the marketing of locally produced industrial products even though some of them were much below accepted standards. Consumers were left with no alternative but to purchase essentials even though certain goods hardly qualified to be of marketable quality. Thus the conditions that prevailed among both the consumer and private sector industrialists left much to be desired.

The Five-Year Plan of 1972-76 had envisaged the development of Agro-based Industries at a faster rate with the intention of developing an agricultural raw materials processing sector and thereby to reduce the heavy dependence of the industrial sector on imported raw materials. However, the special emphasis given to the "food drive" during these years resulted in a lower level of production of agricultural raw materials for industries. There was also no central authority to co-ordinate the development of Agro-based Industries. The inevitable result of both these factors was a major shortfall in this programme although it had been assigned high priority in the plan.

Between 1970 and 1976 Government Policy tended to regard the Public Sector as the main instrument for the expansion of industries. This is illustrated by the fact that capital investment in maufacturing industry of the Public Sector showed a steady rise from Rs. 645 Mn. in 1970 to Rs. 1,445 Mn. in 1976 showing an average annual increase to Rs. 133 Mn. During this period, Public Sector Corporations became the sources not only for the supply of finished goods but imported raw materials as well. Raw materials were imported by the Ceylon Steel Corporation, Ceylon Ceramics Corporation and National Paper Corporation to the Private Sector. Some Corporations also maintained controls on the quality and price at which raw materials were imported by the private sector. This trend was extended eventually to acquisition of certain private sector industries for management by the Public Sector.

The Present Era

After the advent of this Government in mid 1977 a careful assessment of the situation was carried out and necessary steps were taken to enable the growth of industry unhindered, in both the Public and Private Sectors.

The general policy framework of the Government was decided upon taking into account the several shortages of industrial goods and raw materials and lack of encouragement to the Private Sector during the period upto 1976. These changes can be indicated as :—

(1) Expand the scope of activities of all sectors. It will seek to create an efficient Public Sector especially affecting public utilities, extraction of mineral resources and areas considered to be of strategic importance. The other sectors will be given the opportunity to compete on equal and non-discriminatory terms in areas not reserved exclusively for the Public Sector.

(2) Create an Economic Rehabilitation Area which will operate as a Free Trade Zone providing all forms of facilities to industries. This is intended to attract foreign and local investment which will provide additional avenues of employment as well as new technology which has so far not been developed within the country. It could be in the form of technical collaboration or participation in equity capital.

(3) Investment to be encouraged to enable the growth of medium and small scale industries too.

(4) Combining fiscal incentives with removal of constraints, such as the uncertainty of investment and cumbersome administrative procedures associated with foreign exchange allocation and licensing. Wherever possible they will be done away with and where necessary simplified with the co-operation of Trade Chambers in order to minimize delays and malpractices.

(5) Domestic companies will be encouraged to promote small-scale export oriented industries through industrial Centres located in each district. Preferential tax rates and fiscal incentives will be extended to regional based industries.

(6) Credit and other ancillary facilities will be expanded to support large, medium and small industries.

(7) Invitation to foreign banks to set up their branches in Sri Lanka to support industrial development.

(8) Establish training centres for craftsmen, design centres and craft centres to facilitate export oriented industries.

(9) Encourage and expand management training facilities.

(10) Adopt strict measures to ensure quality control and cost control to facilitate successful competition abroad and protect the interest of the doemestic consumer.

Objectives of the new Industrial Policy

The objectives of the new Industrial policy are to :—

(1) Make maximum use of indigenous raw materials and other natural resources.

(2) Enable wide-spread employment opportunities to the maximum extent possible, by a choice of appropriate technology and providing the maximum level of productivity.

(3) Locate industries as much as possible in rural areas where the majority of the people live, also taking into account the provision of infrastructure, raw material availability and markets for the finished goods.

(4) Foster economic and social progress by enabling the people to participate in the process of industrialisation and enabling them to share directly in the benefits of such industrialisation.

(5) Establish machinery for the control of industries by society to ensure that no monopolistic industrial concentration would take place, which could exploit both the worker as well as the consumer.

(6) Give equal opportunities to the Private and Public Sectors to enable rapid progress and expansion.

(7) Ensure that Public Sector institutions are commercially viable. The Government will not subsidise any losses excepting where it is considered a national priority.

(8) Make sure that Public Sector institutions maintain as low a level of prices as possible, consistent with commercial profitability and efficient management so as not to cast any burden on the consumer.

(9) Encourage industrial research to enable domestic fabrication of machinery and equipment and enable an increase in productivity.

(10) Foster research, enabling the lower and more efficient utilisation of energy dependent on imported fuels and promotion of greater utilisation of energy sources available within the country.

(11) Reduce the gap which exists between management and employees in industry, both in the Public and Private Sector by enabling employees in industries to purchase shares in the institutions where they are employed. This would provide a greater motivation for employees to contribute towards the development of these enterprises.

(12) Establish employees councils to provide effective worker participation in management.

Incentives for Investment

Incentives offered to manufacturing industries outside the GCEC could be broadly catalogued into :

(1) Fiscal Incentives—

(2) Other Incentives—

Fiscal Incentives constitute of a five-year tax holiday on profits accruing from exports, of manufactured products, in terms of Section 21(*b*) of the Inland Revenue Act, No. 38 of 1979. The significant feature of the tax holiday is that it is limited only to the Companies. The tax holiday for small and medium scale industries which commenced on or after 15th November, 1977, and located outside Municipal limits are entitled to exemption of tax of profits up to a limit of Rs. 200,000 per annum. This exemption is available up to 31st March, 1983. Small resident Companies are also eligible for concessionary rate of corporate tax. Such companies are taxed on a graduated scale. The tax holiday is also available in terms of Section 22 (*c*) of Inland Revenue Act No. 28 of 1979 for import substitution and pioneering industries.

Dividends paid out either during the period of tax holiday or during the period immediately succeeding it, will be exempt from income tax.

Other Incentives

Credit Guarantee Scheme for Small and Medium Industries.—In terms of an Agreement entered into between the Government of Sri Lanka and the International Development Association a credit guarantee scheme became operative in 1979. This scheme is operated by the Commercial Banks, and re-financing facilities are provided by the National Development Bank.

The technical and other infra-structure facilities provided under this scheme include—

(1) Setting up of sub-contracting exchange to facilitate production under sub-contracting arrangements.

(2) A service centre scheme to provide technical assistance for the manufacture of rubber goods.

(3) Service centres for the production of building materials and light engineering products.

Foreign Investment

Foreign Investment is welcomed by Government both in respect of the Public and Private Sectors.

In order to assist the promotion of such new investment, Foreign Banks have been encouraged to establish branches in the country. Merchant banking facilities are also available and include pre-investment studies for potential investors, project finance feasibility reports, as well as the arrangement of finance.

The majority of these commercial banks are now operating Foreign Currency Banking Units offering off-shore banking facilities to all non-resident and Greater Colombo Economic Commission Enterprises.

Technical collaboration with foreign organisations too is encouraged and both the Public and Private Sectors have already made use of this opportunity.

In evaulating foreign collaboration projects, the Ministry seeks to ensure that the following main objectives are achieved :

(*a*) Sufficient foreign capital investment is obtained in cases where there is a gap in the financing requirements.

(*b*) New or Complex Technologies are introduced ;

(*c*) Overseas markets are available for the products to be manufactured.

The following table shows the Industrial Projects approved by the Foreign Investment Advisory Committee on the recommendations of the Project Evaluation Division of this Ministry since January, 1978 :

Year	No. of Projects	Total Investment	Employment
1978 ..	.. 9	.. 196,364,000 ..	1,167
1979 ..	.. 15	.. 192,589,000 ..	3,008
1980 ..	.. 38	.. 1,123,524,000 ..	4,453
1981 (up to August) ..	15	.. 154,569,000 ..	1,024

Greater Colombo Economic Commission (GCEC)

The first Investment Promotion Zone has already been established North of Colombo at Katunayake which is adjacent to the International Airport. It is also close to the Port of Colombo. This Zone covers an area of 410 acres (165 Hectares).

The second Investment Promotion Zone is to be sited at Biyagama which is about 12 miles North-East of Colombo. This will cover an area of 211 acres (85 Hectares).

Some of the main features of this investment promotion package are as indicated below :

* Foreign Investments are guaranteed by the Sri Lanka Constitution.
* A Tax Holiday of up to 10 years and a further concessionary tax period of up to 15 years.
* Double taxation relief with major countries of the world.
* No limits on equity holdings of foreign investors.
* Free transfer of shares within or outside Sri Lanka.
* No tax or exchange control on such transfers.
* Dividends of non-resident share holders exempt from any taxes and remittances of such dividends exempt from Exchange Control.
* No import duty on machinery, equipment construction materials and raw materials.
* Imports and exports are exempt from normal import control and exchange control procedures.
* Transfer of capital and proceeds of liquidation exempt from exchange control.

Public Sector

The Public Sector which controls investments coming under the Ministry of Industries consist of 16 Manufacturing Corporations, 7 Statutory Bodies, 5 Business Undertakings and 6 Limited Liability Companies. Since the present Government came into power this sector has been making significant progress upto date.

There is also a steady increase in employment generated. Production has also increased and endeavoured to reach out for maximum capacity utilisation of plant and equipment. Since the liberalisation of imports these manufacturing organisations have increased their productivity and improved quality in order to compete with imported products.

Capital Investment

The total investment in the Public Sector amounted to Rs. 608 Million in 1979 and Rs. 852 Million in 1980. The main investments being the following :

(1) The Urea Fertilizer Project	Rs. 353 Million
(2) Major Products under Petroleum Corporation ..	Rs. 91 Million
(3) Ceylon Cement Corporation	Rs. 71 Million
(4) National Paper Corporation ..	Rs. 20 Million
(5) Ceylon Steel Corporation	Rs. 33 Million
(6) Ceylon Ceramics Corporation	Rs. 9 Million
(7) State Mining and Mineral Development Corporation..	Rs. 4 Million
(8) Paranthan Chemicals Corporation	Rs. 3 Million

Profitability

During the year 1980 when the review of activities for the Public Sector for 1979 was compiled it was made evident that the performance of the Public Sector manufacturing institutions coming under this Ministry had been very satisfactory in their respective activities. 14 Organisations having shown a clear profit. As at the end of 1979 the Public Sector had in its direct employment a total of 46,812 persons. The public sector institutions in the manufacturing field made a total profit (prior to taxation) of Rs. 451,188,256/. The Public Sector institutions that contributed mainly to this profit of the State Sector during the year 1979 are as follows :

	Rs.
(1) Petroleum Corporation	192,000,000
(2) Mineral Sands Corporation ..	35,068,840
(3) Tyre Corporation	32,911,456
(4) Ceylon Steel Corporation ..	29,653,329
(5) Ceylon Ceramics Corporation ..	26,340,000
(6) Mining and Mineral Development Corporation	26,268,392
(7) Tobacco Industries Corporation ..	34,592,513

Foreign Exchange Earnings and Savings

10 Manufacturing Corporations earned appreciable amounts by way of foreign exchange earnings from their exports. These Corporations manufactured a varied range of products which were exported and the total foreign exchange earnings made is indicated below :

	Rs,
1978 ..	1,138,036,402
1979 ..	2,154,451,278
1980 ..	1,612,953,000

(Total for 8 Corporations)

Foreign Exchange Savings has also been effected by most of the Corporations by way of import substitution. The total amount of foreign exchange savings achieved has been very significant since 1978. Out of 16 Corporations which bring about savings in Foreign Exchange, the Statistics up to the time of writing show a total saving of Rs. 1,794,342,000 brought about by 10 Corporations.

Private Sector

During the years 1977 to 1981 (up to June) this Ministry has approved a total of 2,940 private sector industrial units. The following details show the industrial units approved, the total investment and employment generated in the private sector.

	1977	*1978*	*1979*	*1980*	*1981* (*Up to June*)
Industrial Units Approved	493	1081	730	468	179
Investment in (Rs.) Million	87.2	625.8	263.03	77.8	102
Employment ..	14250	23562	13800	3111	3194

The Role of the Public Sector in the Changing Road Passenger Scene — A New Strategy

DR. K. SUNDARALINGAM*

The Current Situation

THE situation of road passenger transport in the country in general and of urban passenger transport in particular has, with the policy of free enterprise, considerably improved during the last two years. Notwithstanding the progress made, public transport continues to be inadequate both in levels of services and in the areas served.

Road passenger transport has had, until 1978, been the near monopoly of the state owned enterprise — the Ceylon Transport Board, (now reconstituted into the Sri Lanka Central Transport Board and the Regional Transport Boards). Stringent control over the use of scarce foreign exchange since 1960 had resulted in the non-development of a viable private sector. The governments current open-economy policy has caused for both an influx of sizeable number of motorised vehicles of all descriptions and to an expansion in their private ownership. Private participation in road passenger movements initiated in 1980 with the view to remedying the inadequacies identified with the Public Sector has also expanded substantially throughout the country. Nonetheless, the presence yet of a large proportion of travelling public without the means to afford their own forms of transport, both motorised or otherwise, imply that there is the need for a comprehensive and efficient system of public transport operated either by the State or the Private Sector.

The policy of liberalising imports motorised vehicles and the free use of vehicles for the transport of passengers has undeniably bestowed considerable benefits to individual members of the travelling public, and in the prevailing circumstances the urban traveller seems to stand to considerable advantages over his rural counterpart. Further encouragement towards private sector participation would understandably permit for a larger element of satisfaction among the general travelling public. As fare paying users of public transport one could justifiably expect them to show their paramount consideration to quality of service, which aspect, it is often pointed out that the Regional Transport Boards (RTBB) have not been able in the last few years and would not be able in the foreseeble future, to assure at the desired levels.

On the face of this situation, the demand for passenger transport is to witness considerable growth in the country in the coming years, and the demand growth in respect of urban (passenger) transport is liable to witness much more rapid strides on the face of the rapidly changing socio-economic environment. Naturally, it is incumbent on the part of the authorities to view this changing scenerio in its proper perspective and to take such measures that could provide for better results than would be otherwise.

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Apparently, the anticipated high rate of growth in demand for transport, and essentially urban transport, would be made more serious by inherent tendencies towards increasing costs of supply. Besides the ever-increasing costs of vehicles, the equally increasing costs of fuel-use would place the government in an ever-increasing embarrassing position in the direction of foreign exchange use. In addition to this situation, the absence of additional road capacity in congested (urban) areas would progressively increase operational costs, while increasing personal travel times and discomfort. The extent to which these congestion-related elements would further aggravate the situation equally depends on the level of expansion of road freight carriage capacity which aspect, however, is not being touched upon here. Nonetheless, one should accept that the degree of countervailing influence these elements are liable to exert on road users would possibly determine the future pattern of the road passenger transport system, particularly in the urban areas, where the problems are manifest in their more complex forms. But the extent to which the Private and Public Sectors of the industry would expand or be curtailed right across the country would depend on many factors that are apt to change over time regardless of the degree of steadfastness of the government's open-economy policy of the day. As a case in point, the withdrawal of the Lump Sum Depreciation concession granted to intending investors on transport vehicles as from March 1981 had resulted in a severe drop in investments on vehicles for public use in the last few months.

The Prospects for the Future

In the backdrop of current development in the country one could possibly pose a question over the likely shape road pssaenger transport could take in the next few years and the possible role the Public Sector should be given if it is bound to be retained. Dominating the outlook from the side of demand is the probability of urban expansion on the one hand and rural development on the other. On the side of supply the dominating factor is the governments open-economy policy implying in particular that no impediments exist towards the expansion of the Private Sector of road transport. Demand for transport would generally expand over the entire country with increases both in population and in socio-economic activities. In the urban areas the larger strides would be identified not only with the natural increase in population in the respective areas but with migrations from the rural areas. Besides, urban transport requirements would accelerate with the lengthing of average trip distances resulting from increased sizes of urban areas combined with a larger degree of concentration of activities in each such area. Commuting to work trips which generally account for more than half of all trips in towns and cities and of which a higher proportion are at peak hours would pose serious problems. Where earlier walking was adequate, now with the extension of activities, cycling and some form of motorised transport would be needed simply to reach places of work. With land space generally becoming scarce in the traditionally urban locations and consequently cost-prohibitive, dormitory areas located quite a distance away from the centres would imply longer commuter trips than before.

The demand growth process for passenger transport facilities in general will be further accentuated as a result of both redistributions and increases in incomes, and the acceleration process will show much more intensity in the urban than in the rural leading to families and individuals alike to seek their own forms of private transport—motor cars, motor bicycles, scooters, etc. Additional incomes induce additional demand for some form of public transport as well, for it is quite natural for those who walked earlier to seek the use of a bus, a three-wheeler or a taxi now that their incomes have risen.

The extent to which supply will show its growth strides depends, as indicated above on the degree of expansion of family and individual incomes which will condition the expansion of private motorised transport, and in respect of public transport provide by the Private Sector to the extent to which the Public Sector enterprises—the RTBB—are unable to meet the needs of the travelling public. Consideration should also be paid to those members of the travelling public who although not able to possess their own modes of transport are yet able to afford occasionally some forms of individual transport — Taxi cabs, three-wheelers — the expansion in the number of such forms of public transport depending more on the level of quality of the public services provided by either the private or state-owned enterprises rather than on the size of the users purses.

The situation as it seemed to develop would naturally change the road passeger transport picture substantially in the next few years and in the circumstances a rethinking on the effective roles of the Public and Private Sectors of the industry is necessarily implied.

The Changing Role of the Regional Transport Boards

The current governmental thinking on road passenger transport is basically conditioned by the conviction that the Public Sector of the industry—the SLCTB/RTBB structure—would not be able to cope with both the prevailing and future demand situations and that the various inadequacies in road passenger transport in general would have to be remedied by the process of widening Private Sector participation.

This kind of thinking is in no way inconsistent in the background of the open economy policy the government pursued currently. The government more or less seemed comforted by the measures that have been already taken to enhance the availability of transport facilities, both quality and quantitywise, through wider Private Sector participation. These measures have been equally well received by the travelling public and it behoved to the government that the continuation of the process is the best under the circumstances.

Notwithstanding such a solution to the problem as it poses itself, it would seem apparent to any astute observer that the pattern of developments in the road passenger transport sector as a whole is not bereft of disturbing features and that the potential problems of tomorrow are already beginning to emerge. As the picture projects itself it is probably clear that the role of the Regional Transport Boards in the road passenger transport structure has changed considerably, and that the private operator are gradually gaining ground, generally speaking, at the formers expense.

Private operators in developing their services enjoy the full freedom to maintain services in almost all routes served by the RTBB. No inhibitions have been placed against them from expanding their individual operational capacities. They enjoyed the freedom to operate both on short (urban) and long (inter-regional) distance routes, as well as the freedom to avoid unremunerative sections of routes or if necessary to withhold complete services. In determining their vehicle carriage/service capacities they stood to be guided purely by the demand and revenue factors and in all appropriateness if the demand fortheir services expanded, possibly because of the qualitatively superior services they provided (?) they would unhesitatingly expand their capacities without recourse to an understanding of the nature of the capacities the various Regional Boards possessed. The likely under-utilisation of capacity in the public sector arising out of such a condition would necessarilly call for a reallocation of resources as well as a rethinking on the role of the Regional Boards. However, in an attempt to redefine the role of the Regional Boards it is imperative that the private sector expansion must be substantial and that the nature of such expansion is exactly known. This aspect of expansion although in essence is conditioned by the simple market process of demand, however, is imbued with many economic subtleties and those have to be examined at great length to ensure that the decisions taken are appropriate to the current circumstances.

In the prevailing market situation the expansion of the private sector of the road passenger transport industry to the detriment of the interests of the RTBB has to be taken for granted. It is said that the RTBBs losses both in traffic and revenue in the year 1981 consequent to private sector operations are around 20 – 25% over the previous year. It is possible that in the coming years private operators would be able to appropriate for themselves additional traffic out of both newly generated and that presently carried by the RTBB. But, nonetheless, the answer to the question whether private sector expansion could per se be a non-ending process has to be rather cautious in the context of many variables over which no definite views could be forthcoming. As a matter of fact considerable anxiety has arisen among private road operators over the unanticipated government monetary policy elements introduced in response to the needs to curtail the current spiralling inflation in the country. Perhaps one would reasonably agree that in the absence of a much more realistic transport policy which could possibly encompass a more flexible thinking on aspects of capital financing and revenue, the premise that private operators would expand their individual capacities unhindered purely on the basis of increasing demand for their qualitatively superior services lacks validity.

It is also not out of point here to stress upon the fact that the myth of "high quality" often associated with private enterprise is already getting worn off in the transport field. Aspects such as overloading of vehicles, excessive speeding, higher than SLCTB fares, discourtesy among vehicle crews and accidents involving private sector vehicles are becoming increasingly evident with private operations, and possibly in a much more competitive atmosphere, conditions are apt to deteriorate to that level that prevailed before the nationalisation of bus services in 1957, whence the necessity to rethink on the efficacy of a more-than necessary dependence on private participation may loom high in Government circles.

Investments are indeed a reasonable source of ascertaining the nature of the respective capacities of the two sectoral components of the road passenger industry. The public sector as identified with the SLCTB/RTBB structure proposes to invest Rs. 1200 m during the period 1981-83 in expanding both its vehicle and operating capacities. Vehicle strength would expand from 7500 in 1981 to 8000 in 1983. This programme of investment has been decided upon when private sector participation did not pose a practical issue. While not quarrelling over the extent of propriety of the SLCTB/RTBB investment programme in the context of developments in the pattern of current demand for transport facilities it seemed rather unfortunate that no proper data are available relating to investments in the private sector on road passenger vehicles, both for private and public use, over the next two years with the result that a realistic projection of the possible shape of the private sector capacity is unthinkable.

The peculiarity of investments in the private sector of road passenger transport today is their individualistic character. Almost 95% of the vehicles in that sector are owned by individual operators. The circumstances are that as against the presence of complete informatin inregard to public sector investments, private sector investments being decided upon by hundreds of individuals and conditioned by a set of heterogenous factors, many personal in character, do not reveal their nature and as such, are not easily determinable in advance. They failed to come within the ambit of overall investment progrrmme for the road passenger transport sector as a whole. It is to say that opportunities for some sort of coordination in investment relating to that sector are absent. Simultaneously another dominant shortcoming related to the whole question of road passenger transport is the absence of accurate data relating to demand for transport facilities of the future and the knowledge as regards extent to which different forms of private transport could expand during the same period, which knowledge if available could be used with advantage to decide on the sizes of both private and public sector capacities.

In the circumstances, besides not being able to take a decision on the possible sizes of the two sectors of the road passenger transport industry, one can agree that in a possible unregulated and/or uncoordinated investment posture an element of general surplus capacity would prevail in the short run (not necessarilly in the public sector alone), while in the long run underutilisation of capacity in the public sector, in particular, could be the pattern of the day. Such a contention is based on the premise that the RTBB, consequent to their low level quality of services would be at a disadvantage vis-a-vis the private operators in the fields of urban and inter-regional operations. Their inability both to retain the traffic they originally carried as well as to attract freshly generated traffic in such areas of operations and the possible situation where due to social, economic or even political considerations they would be made to retain a large proportion of their existing services regardless of their unremunerativeness would certainly cause for that element of underutilisation of public sector capacity referred to which could expand in circumstances where its vehicle strength is enhanced in accordance with past investment decisions. But on the other hand, an improvement in the quality of RTBB services in general, and on competitive routes in particular, could, to a substantial degree go towards varying the would-be-shape of the private sector capacity. These aspects, regardless of their speculative features should not fail to influence the thinking on the potential roles of the private and public sectors in the years ahead.

None could simply conjure that the quality of the RTBB services would remain static and low on the face of the progress the private sector operators could make in the direction of improving the quality of their services. The RTBB are inexovably bound to restructure their operations and management techniques with the view to reducing their overall operational costs. Public sector bus undertakings in certain countries have been able in recent years to circumvent the challenges of the private operators by taking positive steps to improve on both their services and revenues. In Sri Lanka too, the RTBB could modify their approaches towards operations and management related problems, and perhaps with some sort of governmental assistance in the direction of minimising unfair competition from the private operators they could certainly make considerable amends to the shortcomings identified in the quality of their services.

Notwithstanding, no signs are manifestly suggestive that development in the private sector of road passenger transport would be of that nature as was identified during the past two years and that, in consequence, occasions for a substantial under utilisation of public sector capacity would prevail.

Equally, there is nothing to imply that conditions in the next few years would be unduly detrimental to the interests of the private sector operators, particularly those already in the trade. It would not be too wrong to suggest that the continuation of the open-economy policy is assured at least until the general elections in 1983 and apparently, the flow of both spares and vehicle is not doubted until the end of such period. However, the costs of both spares and vehicles are becoming unduly high which factor could certainly set a premium against the general expansion of private sector capacity, both in the short and long runs. But when looking at the long run (after 1983) besides the cost aspect, expansions would depend largely on the nature of developments in the investment environment which are conditioned by issues like capital finance and monetary returns and often of prime importance to private operators on the one hand, and on the nature of thinking on private ownership of motor cars and the like on the face of accelerating costs of both energy-use and vehicles on the other.

The Scope of the Problem

The contention that in free market situation private sector operations would expand to any desired (high) levels would seem protentious in the light of the prevailing unhealthy monetary environment. The significance of the situation is that in the absence of a change in conditions pertaining to investments in the transport sector the authorities could have in their hands a problem the gravity of which could remain shrouded until it is too late for them to take effective remedies. To be precise, the problem could be one that could arise from the possible weak notion that the road passenger demand/sûpply positions would be satisfactorily resolved without recourse to governmental actions in the direction of either inducing supply in times of paucity or regulating the demand process in times of excess. However, the question of regulating demand is incompatible with the free market concept. But governmental action in the direction of inducing supply could perhaps develop, regardless of its economic propriety,because of the presence of the same element of over dependence on the free market concept, and to the consequential less tolerable belief that the present environment is adequate to meet and to appropriately adjust itself to the investment requriements of the private sector as conditions of supply fell short of in relation to demand.

But the high degree of ambiguity that pervades the issue, as it is, naturally implies a reassessment of the current policy on private sector participation meaning in essence, deciding on its role vis-a-vis that of the public sector. The dominant position of the public sector in the country's road passenger transport arrangement, however, is quite evident from the fact that with an effective fleet of 6500 vehicles it presently accounts for 70% of the total traffic carried. As against it, the private sector with its 6000 odd vehicles of all sorts which in terms of seating capacity, could well equal 2000 of those of the public sector, and regardless of its supposed dominance in both urban and inter-regional operations accounts for only 12% of the traffic and, as such, it should be rightfully considered as supplementing the RTBB services.

As one could perceive the rationale behind any new thinking on the roles of the two sectors is basically conditioned by the future shape the private sector capacity could take. This meant that the government should come out with a clear out policy in that regard which inter-alia meant the revealation of the measures that would be provided to induce private sector investments in circumstances where the assumed free market process would not yield the desired results.

Statistics pertaining to imports of motorised vehicles of all descriptions point to the fact that at no time in the history of transport in the country, conditions had been so good to the user as they were during the last three years. But as against the unprecedented imports of those years the gradual drop in the number of vehicles imported in general during the last few months of this year perhaps seemed to foretell the probable near satiation of the supply situation, at least in respect of vehicles that could go towards expanding the private sector capacity of road passenger transport.

If this trend were to continue, and it could be less speculative to think otherwise in the prevailing circumstances, the possible gap betwen demand and supply of transport facilities in the years 1983 onwards will enlarge itself to pose serious problems for all concerned, while the possible roles of the two sectors will remain ill defined and incongruous in relation to their expected performances.

Towards a New Strategy

A restatement of the problem while underlining the pretentious nature of the contention that the private sector would in the necessary circumstances simply step in to fill the gap between demand and supply for passenger services in the years ahead and that since the consequences resulting from an overplay of the validity of that contention would be for more complex that what is normally assumed in the light of assumptions stresses that much greater thought has to be given to all the factors that go to constitute that problem.

The pretentious nature ,it is asserted, arises over the inexactness of assessment of the investments in the private sector of road passenger transport during the years 1980-81. The upsurge in investments during the two years, one has to accept, is more of a reflection of the immediate effects of a laissez faire policy and the consequential urge among individual entrepreneurs to make quick money in an unregulated environment conditioned by a long period (since 1970) of unsatiated demand for transport facilities and not that of a spontaneous endeavour on the part of entrepreneurs to commit their financial resources towards evolving a transport structure that could have, while meeting the commercial criterion of adequate financial returns on investments, lived to the needs of the travelling public, both in the short and long runs.

It is indeed sheer fantacy to comfort oneself that the private operators who entered the transport field did so with the view to helping the government and the public alike in the direction of removing the inadequacies identified with the RTBB services. Rather, the entire phenomenon of private sector expansion was in all appropriateness motivated by the potential wide margins of profits, and one could agree that where the margins of profit would fail to live up to the expectations of the operators progressive decline in investments cannot be avoided. It is to say that if the government wanted the private sector capacity to expand to those levels as would enhance to a large extent the role of the private sector the operators should be enabled to secure returns which in their opinion are adequate in relat'on to their capital investments and the deployment of resources.

Developments in the country today, however, po'nt more towards to the less conducive climate for private sector investments. Commercial credits have been narrowed considerably at governmental insistence. Only 25% of the total costs are allowed by Banks as against the 100% allowed earlier for the imports of passenger use vehicles. The hire purchase charges made by private finance companies are unduly high on the face of the high interest rates they themselves pay on deposits with them, and the possible high margins of returns on other protitable import/export investments. The withdrawal of the Lump Sum Depreciation concession since March 1981 has again had in its own way negative effects on investments in this field of activity. Added to these is the expected general election in 1983 which aspect naturally justified that element of paucity seen among investors who wished for some sort of guarantee for the continuation of the free market economy for some more time.

Besides these constraints on investments the private operator shave to face a yet hostile environment of spiralling costs of operation and the resultant prospects of narrowed margins of profits unless they have recourse to an arrangement to charge their own fares irrespective of the system of fare charging adopted by the RTBB. In a situation where such a fare charging arrangement does not prevail they could not but expect for a scheme of concessions in the areas of capital procurement, interest rates, taxes as well as in the observance of certain conditions pertaining to operations (e.g. the non-need for their conductors to be licensed) as a means to expand their investments on passenger road transport with the sole view to maintaining that sort of capacity that could well bridge the gap between demand and supply in an environment when the public sector capacity is not being expanded as a matter of government policy.

The potential low nature of private sector capacity expansion has to be accepted with further exactitude in view of the possible difficulties private operatars are likely to face in sustaining their present fleet strengths in the next few years. The natural phenomenon that could set in with a large fleet of reconditioned vehicles that have found their place in the country's transport structure today would be their inability to survive for long, the ordeal of the heavy demand associated with the kind of operations the private operators tend to resort to with their minds set towards maximising their monetary returns within the least possible period of time particularly because of the unsettled state of affairs as it is today. One cannot but accept the charge that a good number of the vehicles in use today do go off the roads at frequent intervals due to mechanical short-comings and that with the passage of time the danger of mechanically motivated interruptuons in the operational schedules of many private operators cannot be completely obviated on the face of the lower maintenance levels, resulting from higher costs of spares and labour, common with an inflationary environment.

The interest payment and capital amortization obligations besides the need to provide for current and future financial commitments, equally figure prominently in the context of current private passenger transport operations. It is to say that the major portions of the earnings are appropriated in a way which precludes the means to provide for regular overall maintenances and replacements of vehicles, which aspects weigh heavily against the possible continuation of the present private sector capacity into the years after 1983.

All told, an examination of the whole concept of private sector expansion in a free market enterprise seems to reveal many pitfalls allied to it, rather the wide prospects that could lend anyone to believe that conditions would improve in the next few years to that level as to be adequate to promote the rapid expansion of the private sector capacity so much so that the public sector would be pushed into a state of non vital role in the sphere of road passenger transport in the country.

A New Strategy - the Considerations

In the context of developments witnessed in the road passenger transport industry during the last two years and the potential developments in the next few years, the policy options open to the authorities in regard to the role of the public sector, whatever the forms they may take, cannot divert themselves of the need to give due weight to the social economic and political considerations which have in the past not failed to condition government policy decisions in this sector of activity. Nonetheless the rationale behind any decisions at the moment would essentially have to be conditioned by the open economy policy, in particular by the nature of private sector performances vis-a-vis that of the public sector, in terms of quantity and quality, as well as on the nature of thinking in regard to the sort of expansion in individual private transport in the years ahead. But the imposing question is to what extent would this kind of thinking succeed.

In a free market situation, assertion that the private sector, by virtue of its supposed superior quality of services would not fail to expand its capacity at the expense of the public sector, needs little debate. But, nonetheless in the earlier paragraphs the extraneous limitations on the expansion of the private sector capacity were lucidly examined. Notwithstanding one would not fail to agree that in circumstances where the free market process failed to yield the expected results there is nothing to prevent the government from involving specific measures to encourgae private sector expansion as a matter of deliberate policy, not only in the urban areas where the problem seems to be delicate but also in the rural areas where in the eyes of the Government,private sector expansionc ould result in conditions for better than what exists today. As a matter of fact, government could impose specific inhibitions on the public sector in a way that it would not effectively compete with the private operators. The recent refusal to the implementation of the SLCTB proposed flat fare' scheme between Borella and Colombo Fort, and the substantial reduction in the import duty (from 25% to 7%) on vehicle for private passenger use are instances of possible governmental actions towards safeguarding and extending private sector interest. The economic propriety either of the proposed flat fare scheme or of its non approval is not discussed here. But the fact is that the refusal to approve the scheme is possibly a veritable source of governmental intervention in the direction of encouraging private sector expansion. It lends validity to the contention that the interests of the public sector could be overlooked in circumstances where it is felt that the wider community interests could be upheld through a wider private sector participation, perhaps.

Notwithstanding, an examination of all the major constituent elements of the problem in their proper perspectives lends one to believe that the retention of the public sector in some form or the other seems less credulous. That aspect is brought to bear by the simple fact that regardless of the absence of any positive constraints private operators have not expanded their opertions even in the urban areas where the scope for expansion is considerably high, so as to eliminate the public service operations entirely. While conceding to the claim that the yester-year dominance of the public sector has been removed in the urban and inter regional areas of operations in general, the fact that public sector vehicle yet carry to their full capacities at certain times of the day (peak commuter hours) on certain routes in the urban areas both well served as well as totally not served by the private operators, prompts one to conclude that they (private operators) yet face some sort of constraints in the direction of expanding their capacities as circumstances stood as they are.

Equally, the same sort of constraints or something more seem to reproduce a picture of non desire on the part of the private operators to enter the rural scene. Public sector services continue to prevail as they are and the reluctance of the private operators to venture into that area of operations is certainly motivated by the absence of adequate monetary returns.

The feature of under utilisation of capacity that goes with peak hour operations in urban areas, like Colombo in particular adds to the constraints that bear relevance to the possible inadequacy related to private sector capacity. One cannot simply construe that the private operators would venture to expand their capacites just to appropriate for themselves that portion of " profitable " traffic presently carried by public sector vehicles (in peak hours), and in the process drive themselves into a position of possessing under-utilised capacity, the quantum of which could expand on the face of the arrangement that keeps the public sector vehicles on the run both during peak and off peak hours. But any arrangement for the curtailment of public sector services, more particularly during peak hours, and perhaps during off peak hours as well, cannot be a reality in this existing circumstances for the simple reason that those vehicles catered for not only fare paying passengers, but also for those such as school children and clergy who enjoy considerable fare concessions. Even among the fare paying passengers there are those who paid less than cost charges as those in the rural areas, and on certain urban routes on which historic fares are being charged yet. This concessionary transport arrangement, it is not doubted, the government would wish to retain in deferment to social, economic and/or to political considerations. Nonetheless one could agree that alternate arrangements for the carriage of such traffic by private sector vehicles are not beyond the thinking of the authorities. But regardless of the possible difficult mechanics concerned with those they should agree that any such arrangement should bring about a service structure much more efficient in the use of available vehicle/personnel resources than what it is today in the light of the use of the public sector capacity. The possible absence, however, of a ready at hand arrangement of transfer to the private sector the responsiblity for the carriage of such less-than cost fare paying traffic, and the possible desire on the part of the authorities not to disturb the existing structure of operations for reasons other than economic could perhaps provide the conditions to retain the public sector operations unaltered even on the face of a general inefficient use of transport resources, both those of the public and private sectors. A discussion of the economics of using public sector vehicles for the carriage of the privileged section of the travelling public vis-a-vis of the use of private sector vehicles is not attempted here, but it should not be overlooked that in arriving at a decision on the role of the public sector, the socio-economic and or the political implications of an arrangmetnt involving the non-use of the public sector vehicle for this kind of traffic do not fail to bear considerable importance.

Notwithstanding the considerations discussed in the direction of expanding their capacities the most that could be expected of the private operators in the urban areas, where their presence is prominently identified, is that given the necessary financial and other facilities they could expand their individual capacities on the purported assumption of an increase in demand for their qualitatively superior services only to that extent, which while attracting that portion of the profitable full fare paying traffic presently carried by the public sector vehicles would be such as not to remain under utilised in the off peak hours such under utilisation arising out of competition from both (other) private operators as well as the public sector vehicles that could it is assumed be compelled by circumstances to retain their services unaltered.

But, as it stands today the private sector is quite a considerably big motive force, and its presence cannot be overlooked in evolving a new concept towards expanding private sector capacity unles the government felt obliged to contract public sector capacity by deliberate measures that could perhaps appear politically unsavoury, although economically not impalatable. This aspect, in fact, holds the main key to the solution.

Much of this discussion seems to centre on the question of private sector capacity in the urban areas of operation, more so because the problem of inadequacies identified in the urban road transport seemed to be portrayed with a high degree of dexterity and ablemindedness by vested interests to whom access to mass media of a wide nature is readily available so as to create consternation among politicians and to invigorate them into quicker action. While not in any way trying to dampen the magnitude of the urban problem, the need, nonetheless not to underplay the vagaries of rural passenger transport is not absent. As one would see, the matter of expansion of the private sector capacity in the area of rural operations does in no way differ from the concept of fuller utilisation of vehicle capacity. In a situation where this capacity of his vehicle is not put to optimum use, meaning that the private operator is unable to cover both his fixed and variable costs under the existing fare structure, he would not indulge in rural operations unless however, he is given a free hand in the choice of his charges so be assured of such margins of profits which in his opinion are adequate in relation to his capital outlays on his business.

It could be conceded that individual operators, both in the urban and rural areas alike, adopt even now their own charges scheme for services identified with a quality higher than those of the RTBB — private hires but it is a matter of policy concern whether the time propitious and the thinking is appropriate for the private operators to be granted the concession of determining their own charges for rural stage carrier services, which the RTBB have been denied, the low quality of current RTBB rural services, could with an element of justification, be accepted as resulting from their unremunerative nature, meaning in essence, that the fares charged do not cover their costs, both fixed and variable. Perhaps one could argue that the private sector operators' overall operational costs in view of their low overheads and equally because of the considerable efficiencies in operations, could be much below the current RTBB costs, and that therefore instead of calling upon the RTBB to provide more and better services and affording them the opportunity tocharge the necessary fares, the private operators could well be called upon to serve the rural areas, on the justified assumption that their fares could be much lower than what the RTBB would charge for the same sort of services. One could see that no distinction need be made between the public and private sectors, as transport undertakers, over the question of granting the concession to charge as fares the actual costs of operation or as a matter of fact, providing governmental (or local authority) subsidy towards the losses incurred in maintaining such services. The preponderant element in this kind of discussion relates to the efficient use of resources, whether public or private. The thinking that the services of the already available public sector should be part and parcel of any future transport structure regardless of the degree of its efficiency (inefficiency) possesses more of socio-political overtones than economic, whether such services are used in the rural areas or in the urban and inter-regional routes, on the face of a clear understanding that private sector operations do bestow plus economic benefits in the long run.

The economic justification for an expansion of the private sector naturally rest on conviction that the inefficiency identified with the public sector would be progressively eliminated through the process of competition which is concommitant to the policy of free-economy. However, when speaking of competition it is the assumption here that both sectors of the road passenger industry conduct their operations under an identical set of conditions. However, one could well agree that such a climate does not exist today. While certain privileges are conferred on one sector, the other is faced with inhibition in many areas of its activities, and vice-versa. The privileges/inhibitions and the manner in which those offer benefits or pose handicaps to either of the sectors are not listed here for want of time and space. Nonetheless, one should not be discrete in admitting that the public sector suffers from serious disadvantages vis-a-vis the private operators and that the objectives associated with the socio-political considerations that are part and parcel of any public sector operations in the country do so contrary to the prescriptions for free-competition, and in that context the virtues of a free economy policy have to be re-examined in relation to the road passenger industry.

The Options for a New Strategy

The discussions developed so far point to the possible high degree of ambiguity that pervades the concept of free economy. Free economy should in the normal process facilitate the development of the most efficient form of transport undertakings, and on the purported assumption that private enterprise is far more efficient than the public, the gradual elimination of the public sector has to be taken for granted unless its competitive posture improved in the light of the developments in the private sector.

However it was evident from past examination that the climate for the effective play of the free-economy policy does little exist in the country today. The possible constraints in the direction of capital procurement, the high interest rates, increasing costs of vehicles, spares and labour all do so against private sector expansion, and even if the conditions of such nature were removed by the government through special concessions to the private operators, the presence of a formidable public sector undertaking whose operations are conditioned by a set of socio-economic and political factors that ran contrary to the precepts of competition certainly rendered it difficult to hope for a desirable state of transport activities. This situation, not totally unexpected, does imply a new thinking on the responsibilities of the public sector which is the core of the problem today. The options open to the authorities could be listed below :

(1) The public sector could be allowed to maintain services as it does today, both in the areas of rural and urban operations, and in the process there could develop a situation that would decide the respective responsibilities of both the public and private sectors.

(2) The public sector services could be withdrawn from the urban areas as well as from inter-regional routes where it is felt that the private sector, which includes private individual transport, would comfortably respond to the needs of the travelling public both of today and tomorrow, while the rural services and those urban routes which are not favoured by the private operators are retained by the RTBB.

(3) The public sector in addition to giving up services in the urban areas and on inter-regional routes could share rural services with the private operators. It could either maintain or withdraw its presence on urban routes that are not sought after by the private operators.

(4) The private sector could take over all the services right across the country, thus depriving the public sector of any role in road passenger transport.

In the past the government was endeared to the policy of full public enterprise, the failure of which policy served obvious in the immediate years after 1975. The new government reversed that policy to one of " free enterprise," which term although meaning that no one would be prohibited from undertaking passenger transport activities if he wished to, yet did not in any way lend to the suggestion that the public sector should not participate in such an activity. It seemed more pertinent to say that whatever the ulterior objective of the policy be the public sector could participate to that extent as would permit it and the rest of the possible participants to make the best use of the resources deployed in that activity. It is in this context that the above options have to be examined. While it is clear that those options lead to situations which are either—

(*a*) limited private/public enterprise or ;

(*b*) full private/full public enterprise the eligibility of the question of full private enterprise is not out of context in the existing socio-economic and political environment.

Option I.—In the event the public sector were allowed along with the private operators to maintain services in the way it did now, at the behest of the government and in deferment to social, economic and/or political consideration, its role would continue to remain unclear. The absence of a clear government perception of the issues involved would be revealed. The outcome would be a substantial level of underutilisation of private sector capacity as well. The absence of correct measures to remedy the shortcomings that could develop would accentuate the problem. This conclusion emanates from the premise that the private operators, given the necessary financial and other inducements as a matter of government policy would expand their carriage capacities and secure for themselves that portion of fare paying passenger traffic that holds on to the public sector vehicles for want of better service facilities. It could be argued that the private operators would not resort to an indefinite expansion of their capacities but would limit them to the levels at which while being enabled to capture the peak hour traffic from the public vehicles would be equally assured of putting such capacities to optimum use during the entire day of operations. The further premise that since the private sector services are qualitatively superior the likelihood of an eventual large under-utilisation of public services during both peak and off peak hours has to be accepted as a positive possible situation. This implies a substantially larger subsidy than at present. This situation is more appropriate to the urban rather than rural areas of operation. In the rural areas, the absence of competition from private operators would not cause an extension to the already existing underutilisation problem, although due to the increase in costs of operation (and absence of increases in fares) the losses incurred by the public sector shall proportionately increase unless of course, additional traffic seeks its vehicles, which possibility cannot be discounted, on the face of a possible change in the socio-economic environment.

In evaluating the prospects of the public sector, considerations in regard to the possible improvements in the competitive stature of the RTBB are overlooked purely on the premise that factors common to public sector corporations go against such endeavours even though the government and other interested parties are not averse to them. Nothwithstanding, it has to be accepted that as competition develops if it actually develops, the private sector would be better placed to out-manouvre the public sector in very many ways and especially with the special favours bestowed on it, with the ultimate result that the government compelled not to associate itself with the heavy responsibility it has imposed on the public sector would be less reluctant to compensate for its losses which losses may not only embody the costs of the governments' own social-economic and political objectives but the costs of the RTBB's own inefficiency, as well which they could conveniently pass on to the accounts related to the unremunerative services maintained on behalf of the government.

Option 2.—The withdrawal of the public sector services from both the urban and inter-regional routes on the assumption that the prevailing private sector services are either adequate or would suitably respond to the needs of the travelling public on those service routes and this continued retention of public sector services in the rural and the urban unremunerative routes imply something much more than the mere underutilisation of public sector capacity referred to above.

The withdrawal of the current public sector services would certainly impose certain disabilities on the public which factor seems to be overlooked in the proposal. The contention that the prevailing private sector services are adequate is subject to serious debate, while the assumption that the lost public sector services would be compesnated in the course of time by an expansion of the private sector is incompatible with the prevailing situation. Nothwithstanding the time lag invloved with the process of " levelling up " the lost transport capacity the contentious aspect is related to the alternate use of the public sector vehicle capacity displaced in expanding private sector operations as a matter of government policy. Options for its alternate use are not many, being confined to a transfer of that capacity to rural areas where current transport facilities are inadequate, and/or a transfer to the private sector to meet part requirements of that sector towards expanding its capacity. However, in circumstances where additional rural requirements are less but opposition to the transfer of that displaced capacity to the private sector (through sales, lease etc.) is substantial, in deferment to social or political considerations, the problem of underutilisation would have to be faced since the government will be compelled to keep such vehicle capacities as on-going concern regardless of their non-economic use. Perhaps if in the course of the withdrawal process, the demand for transport facilities increased, as it could, in the changing socio-economic environment, the problem of underutilised capacity may not be serious. No specific discussions need be entertained in this regard, but the fact should be borne in mind that the prospects of underutilisation of capacity and the payment of subsidies would be of a substantial nature particularly because of the large proportion of public sector vehicles that would become redundant with services in the urban and inter regional routes being withdrawn.

Another aspect concerning this option and which is of considerable significance is related to the passenger traffic carried at concessionary fares by the public sector vehicles, and which traffic accounts for a considerable public sector kilometerage. Although it is not impertinent to say that arrangements of some sort could be made for such traffic to be carried by the private operators, the practical success of such arrangements and the net financial benefits to the government in not maintaining public sector vehicles for such sort of traffic matter most. If the withdrawal of the public sector services and the consequential transfer of that concession-enjoying traffic to the private sector provides for a large element of economic satisfaction than what is available with the current arrangement, the proposal would seem less contentious. Nonetheless, the absence of a ready at hand arrangement for such a transfer as well as the absence of knowledge of the possible monetary savings or additional expenditure in that regard could pose a deterrent to any such arrangement. It is more or less to admit that this option would lack that degree of administrative and political force which could guarantee its acceptance.

Option 3.—The prospects of sharing the rural services currently maintained in the entirety by the public sector, with the private operators, whatever the theoretical appropriateness may appear to be, are laced with complications related to fare fixing, route assignments etc. The most conspicuous practical difficulty arises out of the question of granting the private operators the freedom to charge their own fares for the rural services they agree to provide. It was made clear that their non-entry to this area of activity is purely dictated by the low margins of profits, and therefore unless the government (or local authority) agreed to subsidise the costs of the services, the need to grant them the freedom to charge their own fares cannot be obviated. This situation, however, looks unsavoury on the face of the denial of such a concession to the RTBB. Possibly, the government could respond to the payment of a subsidy to the private operators as it presently does with the public sector services, but the question is as to why the government should involve itself with a new arrangement which in all respects would not cause for any savings in the quantum of subsidy paid now. That is to say, that the government could forsake public sector services if the amount payable as subsidy to the private operators is much lower than what is presently paid to the public sector for the same sort of services. The normal assumption that the overall costs of public operations are generally higher than those of the private operators renders it possible to agree that the sharing of the rural services with the private operators is consistent with the new (economic) thinking on road passenger transport.

The question of using the displaced/public sector capacity, however, may pose a serious socio-economic and political issue. Yet it is the posture here that if the authorities could arrive at a decision on the question of sharing the rural services in the face of a possible stiff opposition from vested interests, solutions to the potential problems arising are of the economic, as well as the social and political considerations associated with this option could also be considered as being within their reach.

Option 4.—In the context of current government policy of free economy the handing over of the responsibility of road passenger transport for the island as a whole to the private sector does not sound inconsistent. The disbenefits associated with the non-consideration of the socio-political objectives of maintaining the public sector services as they are today could be dwarfed by the possible magnitude of benefits arising out of this adherence to the economic considerations. The view that the government would not be so foolhardy to decide on a transfer of responsibility to the private sector on a purely economic-biassed concept shall bear with relevance to the main government concern of providing an efficient road passenger transport industry. On the contrary, the gradual extension of the private sector capacity, is a pointer to the obvious thinking of the government that the public sector in its present form would not only continue to be a public burden but also fail to meet its own socio-political aspirations.

The option accepted, perhaps some thought need be given the means of transfering responsibility to the private sector. The task could be achieved by the simple process of disposing of the public sector capacity, lock stock and barrel, to some private enterprise, possibly a company. On the other hand, in present SLCTB/RTBB structure could be converted into a private company, thus perhaps obviating possible oppositions from the employees who may be concerned over their future employment prospects if the structure was sold to an outsider. The possible benefits/disbenefits arising from an outright sale of this structure to private enterprise or from its conversion into a private company are not discussed here. But the essential ingredient to this option lies basically with the concept of free-enterprise, and that is what matters here.

On the other hand, public sector services could be tailored to fall in line with the essentials of free-enterprise, which aspect while not interfering with the present statutory arrangement would provide the basis for the structure to operate on a purely commercial basis. This arrangement would call for the institution of an identical set of conditions of operation for both the public and private sectors, which by implication would mean in particular the withdrawal of those statutory obligations imposed on the public sector, and which run contrary to the principles of free enterprise, meaning in essence an unhampered pattern of competition in operations between the private and public sector undertakings.

It is not intended here to embark on an examination of the extent to which the public sector could assert its position in an atmosphere of free competition, and the extent to which the private operators would expand their individual capacities in response to the public sector initiatives. But notwithstanding the appearance of an arrangement which clearly provides the public sector the opportunity to shed itself of the veritable burdens of unrenumerative operations on the one hand, and the maintenance of a big army of employees unrelated to its actual operational needs, on the other, is indeed a challenge to the working of the concept of free-enterprise on which the present government attaches considerable significance to slove the present and future potential problems of road passenger transport in the country.