

# ECONOMIC REVIEW

Nov./Dec:2002



## State Sector in Transition

Digitized by Noolaham Foundation.  
A Noolaham Foundation Publication



# Diary of Events

Oct.

3 In a clear endorsement of the peace initiative and positive signals from negotiation between the Sri Lankan Government and the LTTE, the World Bank has made available US \$ 50 million as development aid for the war ravaged North-East. The package comprises US\$ 15 million for the reconstruction of conflict areas and a further US\$ 35 million for existing projects such as development of schools, health clinics and related social infrastructure.

11 The Electricity Reform Bill was passed in parliament on 10<sup>th</sup> October 2002 by a majority of 25 votes with 108 voting for and 83 against. The TULF voted with the Government for the Bill while PA and JVP voted against.

The Government will hold two International conferences of donor organizations in Japan and Norway to obtain resources for the humanitarian and development work in the North and East. One is expected to be held in Oslo by the end of November or early December. The second Conference will be held on a larger scale in Tokyo five months later.

Rs 300 million Master Plan for Coast Conservation will be funded by the ADB under the West Coast Development and Conservation Project. The construction work of the Master Plan and the project attached to it will commence in November this year. The project covering the area from Wennappuwa, Kolinjadiya upto Payagala will bring much relief to the fishing villages of the coastal zone.

The Asian Development Bank has arranged a loan package of US\$ 130 million (Rs 13 billion) for the debt-ridden Ceylon Electricity Board. Of the US\$ 130 million loan package, US\$ 60 million (around Rs 6 billion) will be for the reforms and the restructuring while the remaining US\$ 70 million will go for the rural electrification programme.

14 Two agreements were signed for the Integrated Water Supply Scheme for Eastern Coastal areas for Ampara District Phase II. The first loan of Japanese Yen 6,278 million (approximately Rs 5,022 million) will be provided by the Australian and New Zealand Banking Group Limited (ANZ) and Citibank International from Export Finance and Insurance Corporation (EFIC) of Australia. The second loan of Rs 2,154 million under a commercial finance facility will be provided by Citibank NA Colombo and syndicate banks.

Sri Lanka consumer Price Index compiled by the Department of Census and Statistics as a trial index for the month of August 2002 was 152.9

15 The Government will shortly establish a United States Dollar Fund named the Sri Lanka Infrastructure Fund to provide long term finances primarily for infrastructure development projects. The Fund will go in for an initial placement of US\$ 75 million which is expected to grow to US\$ 200 million during the first two years. The fund will provide capital for multimillion dollar projects such as thermal/coal fired power, ports, expressways, airports/run-ways, water supply and telecommunications.

Organic fish culture the latest concept is seen as a potential foreign exchange earner. A Rs 2.5 million pilot project will get under way shortly in Lunugamwihara and Udawalawe with Malaysian technical assistance.

18 Sri Lankan Government and the Danish Government signed an agreement at the Interior Ministry to train police personnel on preventing human rights violations. Under the agreement the Danish Government will provide an outright grant of Rs 6,223,525 to the Centre for Human Rights, University of Colombo. A total of 570 police officers are to be trained on Human Rights and Crime Management. Senior police officers, Criminal Investigations Department personnel, Officers in charge of Police Stations, women police officers and officers serving in the North and East will receive training.

21 The Government has launched a rural industrialization programme where it will set up six factories each in 135 electorates aggregating to 810

factories within the next five years. The Government's strategy will be to invest around Rs 40 million on each of these industrial projects which makes the total investment of the countrywide project for the 810 industrial blocks upto Rs 3.2 billion

22 Shell gas increased the price of a 12.5 kg domestic cylinder by Rs. 39/-. The new selling price will be Rs. 567/-. A Shell news release said Global prices have increased by US\$ 40 per metric ton since June 2002

A Memorandum of Understanding (MoU) between the Ceylon National Chamber of Industries and the Federation of Bangladesh Chamber of Commerce and Industry (FBCCT) was signed in the presence of Minister of Industries of Bangladesh and the Acting High Commissioner of Bangladesh. Under this MoU they will enhance the liaison and co-operation between respective organizations in the field of export, import, investment, business information and other commerce oriented activities.

23 LAUGFS Lanka Gas (Pvt) has increased its domestic gas price. The retail price of a domestic LAUGFS Gas Cylinder will be Rs. 515/- (inclusive of VAT Rs 46.82) according to a statement issued by LAUGFS.

24 The Cabinet has approved a further grant of Rs 91 million to the Voluntary Retirement Scheme (VRS) for Lanka Salu Sala employees in addition to the earlier approved amount of Rs 159 million, making the total government contribution of Rs 250 million towards this scheme. Salu Sala's line of business includes operating 23 retail shops throughout the country and supplying textiles and clothing materials to Government institutions and the armed forces

The Government will seek more private sector investment in the Colombo South Port Development Project in a bid to expedite the construction of the new port which would enable Colombo to maintain its position as the best port in the South Asian region. The estimated cost of detail design and engineering study is 14 million US dollars. The Asian Development Bank (ADB) has already provided 10 million US dollars under its Technical Assistance Loan Agreement to implement it.

Nov

1 The Asian Development Bank has granted two loan packages totalling US\$ 130 million to Sri Lanka for power sector development. The package comprises a US\$ 60 million programme loan and a US\$ 70 million project loan.

21 A government to government agreement between Sri Lanka and Italy has opened the doors for fresh employment opportunities for Lankans seeking jobs in Italy. Under this agreement, Italy has promised to offer a specific employment quota of jobs for Lankans provided Sri Lanka stops illegal migration to its shores. Following the new legislation 1,200 vacancies would initially be filled by Sri Lankans. Jobs in Italy are mostly available in the construction and domestic sector.

The Air Transport Agreement between Sri Lanka and the United States of America signed "Open Skies" agreement. The "Open Skies" Agreement provides the legal framework for unrestricted capacity and frequencies by the airlines of both countries including liberalized code sharing and charter arrangements. The agreement covers both passenger and cargo services.

22 The Central Bank will reduce its Repurchase (Repo) rate by 75 basis points to 9.75 per cent and its Reverse Repurchase (Reverse Repo) rate by 100 basis points to 11.75 percent. This decision was taken after considering the continued stability in money and foreign exchange markets, after moderation in inflation and the decline in international market interest rates.

VENKATESH Industries (Ceylon) Ltd., the investor of a coke and power plant with the projected investment of US\$ 225 million would set up their plant at Trincomalee. The co-generation plant will use non-conventional energy resources to generate electricity.



Published by :  
People's Bank,  
Research Department,  
Head Office,  
Sir Chittampalam A.  
Gardiner Mawatha,  
Colombo 02,  
Sri Lanka.

Advisory Board:  
Lal Nanayakkara  
(Chairman, People's Bank)

Derek J. Kelly  
(Chief Executive Officer /  
General Manager)

Asoka de Silva  
(Addl. General Manager)

Chief Editor :  
Dr. S.S.A.L. Siriwardena  
(Director Research)

Deputy Chief Editor:  
Dr. S.L. Tilakasiri  
(Deputy Director Research)

Editor / Managing Editor  
W.G.S. Waidyanatha  
(Senior Research Officer)

Co-Editor: (Tamil Version -  
'Porulial Nokku')  
M.L.M. Mansoor  
(Research Officer)

THE ECONOMIC REVIEW is intended to promote knowledge and interest in the economy and economic development process by a many sided presentation of views and reportage, facts and debates. THE ECONOMIC REVIEW is a community service project of the People's Bank. Its contents however are the result of the editorial considerations only and do not necessarily reflect Bank policies or the official viewpoint. Signed feature articles also are the personal views of the authors and do not represent the institutions to which they are attached. Similar contributions as well as comments and view points are welcome. THE ECONOMIC REVIEW is published monthly and is available both on subscription and on direct sale.

## CONTENTS

### FEATURE

- |                       |    |   |
|-----------------------|----|---|
| Sumith Jayakody       | 23 | Pesticide Management in Sri Lanka - Implementation Issues & Past Experience |
| Sirikumara Gunasinghe | 28 | Rethinking Rural Development  |
|                       | 32 | Privatisation in Pakistan - Some Land Marks                                 |

### SPECIAL REPORT

## STATE SECTOR IN TRANSITION

- |                        |    |   |
|------------------------|----|---|
| Dr. J.B. Kelegama      | 02 | The Importance of the Public Sector   |
| Dr. Shelton Wanasinghe | 07 | Managing Sri Lanka's Administrative Reform Agenda   |
| Ariyaratne Hewage      | 09 | Role of the Public Service in Regaining Sri Lanka   |
| K.M.R. Karunarathna    | 16 | Why State is Necessary for Economic Affairs   |
| Sophia McKett          | 19 | Planning for Development of Sri Lanka - Achievements to date & Possible Future Strategies |

Next Issue  
**Rural Development**

Printed at People's Bank, DTP Unit



# The Importance of the Public Sector

The developing countries are being constantly advised, and in fact, pressurized by the IMF to emasculate the public sector to prune government activities and cut government expenditure and hand over government-owned enterprises to the private sector. It is alleged that state-owned business enterprises are generally inefficient, operate at a loss, crowd out private enterprise, necessitate government subsidies which enlarge the budget deficit and distort prices and misallocate resources. The state, it is argued, cannot manage business ventures and therefore they should be left in the hands of private enterprise. Private enterprise, it is further stated, needs a free environment to operate efficiently and consequently the state should remove obstacles and hindrances by deregulation, decontrol, liberalization and downsizing of the state. In other words, the state should not interfere with the operation of market forces, which if left without interference, are assumed to increase production, allocate resources efficiently and promote growth and employment. The recipe for success, it is repeated, is downsizing the state and upsizing the private sector. The IMF Representative in Sri Lanka, for example, has echoed these views when he told Reuters recently as reported in the newspapers: "The one element holding back economic activity is the size of the public sector as well as the influence of the public sector".

This "one size fits all" formula firstly, ignores the stage of development of developing countries. Many developing countries for example, do not have a capable domestic entrepreneurial class that could mobilize capital and develop the economy; there is therefore no alternative but for the state to fill the gap. Secondly, it ignores the inadequacy and shortcomings of the private sector, for example, its tendency to invest in business which yield high profits quickly and showing little interest in business which yield low profits and that too over a long period, even when they are necessary to build up a viable economy, such as roads, railways and harbours. Thirdly, it does not pay attention to the social services, which do not yield profits such as schools, universities, hospitals (except fee-levying schools, universities and hospitals), irrigation schemes and clean drinking water.

The crucial importance of public investment in a developing economy cannot be overemphasized. Developing countries like Sri Lanka lack modern and efficient infrastructural facilities which are an essential prerequisite to any economic development. It is beyond dispute that the country needs more and better roads and railways, harbours and airports, irrigation schemes, power supplies and communications for any production (economic activity) to take place, and more and better hospitals, schools and higher educational institutions to provide health, knowledge and skills to people to engage more productively in economic

## Dr. J.B. Kelegama \*

activity. It is the responsibility of the state mainly to provide these infrastructural facilities which in turn require higher public investment. Thus, improvement of the infrastructure involves increased public investment and it is therefore necessary for public investment to rise in developing countries.

Public investment in infrastructure alone may not be enough to promote economic growth in some developing countries, particularly those which lack a capable domestic entrepreneurial class. In such countries the state may have no alternative but to invest directly in productive enterprises such as factories and banks. Public investment is also necessary in nationally desirable enterprises which the private sector shuns, for example, a building glass factory which the private sector has failed to establish since Independence in Sri Lanka. Public investment is also necessary in undertakings where public ownership is preferable to private ownership. For example, leaving vital necessities like electricity and natural gas to the tender mercies of the market is too risky, especially when giant private firms like Enron can vanish overnight. In all the rapidly growing economies of East and South East Asia, public enterprises and private enterprises co-exist without conflict in a complementary relationship.

Fourthly, it does not take an overall view of the economy in the long term and provide manpower

skills and training needed in the future. Fifthly, it forgets that the private sector cannot provide such services as national security, food security, preservation of the environment and biodiversity and regulations and controls necessary to prevent business malpractices and to ensure competition. Sixth, the pace of development by the private sector may be too slow to accelerate economic growth and create employment and public intervention would be needed to speed up capital accumulation and accelerate growth. Finally, it ignores the fact that in developing countries, there are several problems which cannot be solved by the private sector alone such as poverty, inequality in the distribution of benefits and unemployment and under-employment which if not solved, would tend to make things difficult for private enterprise and the free market to operate.

The crucial role played by the public sector was highlighted by the South Commission Report as follows:-

"There has hardly been a historical case of sustained economic growth and development without the active participation of the state as a regulator and promoter.



Some political groups, along with trade unions affiliated to them and civil action groups resort to protest demonstrations, against globalization and restructuring the state institutions.

By their very nature, unregulated market systems pay little or no heed to such strategic areas as basic industries, health and education services, scientific and technological research, and the preservation of the environment and natural resources. It is particularly unlikely that the free play of market forces would result in the growth with equity that a people-centered development strategy seeks to achieve. Excessive reliance on market forces can lead to concentration of economic power and wider disparities in income and

\* Chancellor - Rajarata University



wealth, to the underutilization of resources, to unemployment and to the wastage of the savings potential, with the result that the pace of development and technical progress is retarded"

Thus, contrary to the IMF, the South Commission states that it is essential that the state plays a leading role in the economy both as a regulator and promoter. In fact, Asian experience indicates that an active state which increases public investment and guides and regulates the private sector, far from reducing, increases economic growth.

### Private Investment Needs Public Investment

There will be little private investment without efficient infrastructural facilities. Expectation of private profits is as much related to infrastructural facilities as they are to tax and other incentives and infrastructure is most essential for private activity to take place at all. It is hardly necessary to point out that private investment will not be attracted by poor and inefficient infrastructure consisting of bad roads, railways, harbours and airports, frequent breakdowns in power and poor communications however attractive tax and other concessions are, for poor infrastructural facilities tend to raise the cost of production and to lower the profit margin. A major reason for three-quarters of the world's foreign direct investment (FDI) to flow into developed countries is the superior infrastructure of those countries. Again, Africa receives only 1.0 per cent of world FDI mainly because of its poor infrastructure while Latin America receives 10.5 per cent and Asia 12.2 per cent by virtue of their better infrastructure.

Public investment does not, as some say, crowd out private investment. On the contrary, public investment is a *sine qua non* for private investment. Without public investment in infrastructure, there will be little private investment. Further, public investment stimulates private investment by involving private firms through contracts in the creation and improvement of infrastructural assets and providing them with new business through orders for materials and equipment required in infrastructural investment. In most countries, private firms are selected on a tender basis, to build or improve roads, airports, seaports, irrigation and hydro-electricity dams and to construct buildings for schools, hospitals, administration and public housing. In addition, the equipment and materials needed by the government for these physical assets machinery, spare parts, motor vehicles, ships, aeroplanes, railway engines, generators and

other materials are purchased from private firms on the basis of tenders. So, expanding public investment results in expanding private investment in a symbiotic relationship. This is taking place in all developing countries, particularly in the East



Road passenger transport service was nationalised in Sri Lanka in 1958. After 20 years time, the state monopoly in this sector was withdrawn with a view to allow private sector participation. But state road passenger transport sector still plays a vital role.

Asian countries where high levels of public investment have created a favourable climate for private investment.

### Declining Public Investment Reduces Economic Growth

The relative importance of public investment is however declining in the Sri Lankan economy. Public investment was 7.9 per cent of GDP in 1995 but it declined to 6.4 per cent in 2000 and to 5.9 per cent 2001 as shown in the table below:

Public Investment 1995-2002		
Year	Rs. Billion	As % of GDP
1995	52.8	7.9
1996	46.0	6.0
1997	51.3	5.8
1998	68.3	6.7
1999	71.4	6.5
2000	81.0	6.4
2001	82.7	5.9
2002 est.	84.9	5.4

The budget for 2002 continues this decline. Public investment for 2002 is estimated at 5.4 per cent of GDP the actual investment however tends invariably to be lower. In 2000, the actual public investment was 20.8 per cent lower than the estimate and in 2001 it was 22.2 per cent lower. Going on the basis of these figures, if the actual public investment is 21.0 per cent lower than the estimate in 2002, then the actual public investment will be around Rs.67.1 billion or 4.3 per cent of GDP. The Budget Speech itself underlined the importance of public investment in increasing the productive capacity of the economy. Referring to

the budgets of 2000 and 2001, it stated: "in spite of the increase in expenditure, public investment declined to 5.9 per cent of GDP in 2001 from 6.5 per cent in the previous year impacting adversely the future productive capacity of the country". Thus, the further reduction of public investment from 5.9 per cent of the GDP in 2001 to 5.4 (or 4.3) per cent of GDP in 2002 will be surely "impact adversely" the productive capacity even more.

### Public Sector in Developed Countries

The developed countries have large public sectors although developing countries are being advised to have small ones. The developed countries are basically private enterprise based economies or free market economies and yet they maintain sizeable public sectors. Government spending as a percentage of GDP is 52 in Sweden, 50 in Denmark and France, between 40 and 50 per cent in Japan, Belgium, Italy, Germany, Netherlands and Canada, between 30 to 40 in the UK, Spain and Australia and 29 in the USA as shown in Table 1. Sweden has the largest amount of government spending in relation to GDP while the US has the smallest. Strangely, Sri Lanka's government expenditure in 2000 was 27 per cent of GDP, even lower than that of the USA and yet we are asked to emasculate the public sector.

Government spending in the 22 rich countries of OECD as a whole rose from 32.3 per cent of GDP in 1970 to 42.3 per cent of GDP in 1995. It is all right for them to increase government spending but bad for developing countries to do so!

Public spending on such a large scale is financed by high taxation. Total tax revenue exceeds 50 per cent of GDP in Sweden, varies between 40 and 50 per cent in Denmark, Finland, Belgium, France, Italy, Netherlands and Norway, between 30 and 40 per cent in

Table 1 General Government Spending as % of GDP 2001			
Sweden	52	Netherlands	41
Denmark	50	Canada	41
France	50	Norway	40
Greece	49	Iceland	40
Austria	47	New Zealand	39
Japan	46	UK	39
Belgium	46	Spain	38
Italy	45	Australia	33
Germany	45	Ireland	29
Finland	43	USA	29
Portugal	42	Sri Lanka	27

(Economist August 4, 2001)



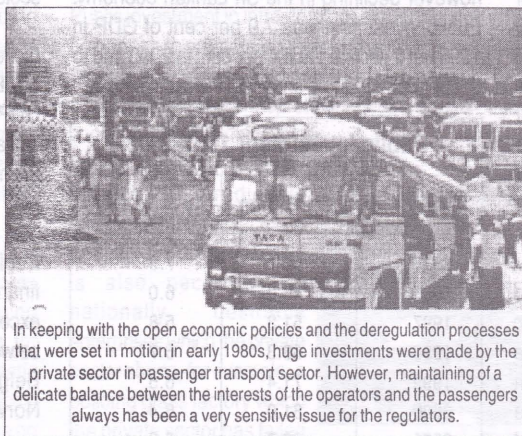
Germany, Britain, Canada and Switzerland and 20 to 30 per cent in US and Japan. In Sri Lanka, total tax revenue in 2000 was only about 15 per cent of GDP much lower than in the developed countries. Corporate tax rate are 40 per cent or more in Canada, Japan, Italy, Belgium and US and 39 per cent in Germany more than in Sri Lanka where it is 35 per cent. Top income tax rate is 60 per cent in Netherlands, 50-60 per cent in Denmark, Finland, Sweden, Belgium, France and Germany and between 40 and 50 per cent in Spain, Italy and Britain as compared to 35 per cent in Sri Lanka. Yet, there are some who advocate a reduction in taxation to promote private investment when much higher corporate and individual income taxation has not discouraged private investment in developed countries.

State intervention in the developed countries take several forms such as subsidies to agriculture and industry, protection of domestic industries by high tariffs and import restrictions, bail-outs of bankrupt big businesses, prevention of monopolistic practices, social welfare schemes, and state ownership of assets. In fact, state subsidies are a major reason for the high level of government spending; agricultural subsidies in the developed (OECD) countries amounted to \$ 361 billion in 2001 equal to 40 per cent of the value of agricultural production. State aid to the manufacturing sector in the European Union alone in 1995-1997 amounted to \$ 48 billion or 2.8 per cent of value added; these subsidies are mainly to ailing industries such as shipbuilding, coal mining and automobiles. Subsidies to industry account for 5 per cent of German public spending. The US government has bailed out several large firms in difficulties such as Chrysler, Lockheed, Continental Illinois Bank and Long-Term Capital Management. In addition, there are export subsidies for agricultural products. Social welfare in Western Europe such as unemployment benefits, medical and health benefits and care of the aged account for a substantial part of general spending but it is much less in the USA. This is the main reason for income distribution to be more equal in Western Europe than in the USA.

All the developed countries protect their agriculture and industry: the US for example, protects its sugar, tobacco, groundnuts, dairy products, textiles, garments, automobiles, steel, lamb meat, catfish, etc. The EU protects its dairy products, wine, tobacco, vegetable oils, tomatoes, and citrus fruits and Japan restricts imports of rice and beef. Many seem to forget

that the USA through various trade restrictive measures such as the McKinley Tariff of 1890 and the Dingley tariff of 1897 became the most protectionist country in the world at the beginning of the twentieth century and Japan went even further by closing its doors to global market forces until its industries reached world standards. They also have legislation and mechanisms to prevent monopolies threatening consumer interests; the US court action to penalize Microsoft recently is a good example. Besides, they also intervene to protect the environment and biodiversity, to ensure food and fuel security and of course to guarantee national security.

State involvement in business activities is not unusual in the so-called free market developed economies. France, for example, has over 3000 state-owned and state-linked businesses; it has a majority stake in some 1500 companies and minority stake in about 1300. There are 6 million people in the public sector in France - a quarter of the workforce. The public sector contributes 10 per cent of the country's GDP. The state, for example, owns 44 per cent of Renault and majority stakes in Air France, France Telecom, Credit Lyonnais and Caisse des Depots et Consignations. Few know that Japan has 163 public corporations involved in everything from construction to water works to airports for example, Housing Loan Corporation, Japan National Oil



In keeping with the open economic policies and the deregulation processes that were set in motion in early 1980s, huge investments were made by the private sector in passenger transport sector. However, maintaining of a delicate balance between the interests of the operators and the passengers always has been a very sensitive issue for the regulators.

Corporation, New Energy and Industrial Technology Development Corporation, Japan Highway Public Corporation, Japan Bank of International Cooperation, and National Space Development Agency.

Norway is a country where state capitalism is working successfully. Almost all health care, education (including 80 per cent of the running costs of church schools) pensions, water, electricity, roads, railways and fixed-line telcoms are state provided. The state dominates in oil and gas and has big stakes in manufacturing: it owns 45 per cent of the country's industrial giant, Norsk Hydro (oil, gas, chemicals, fertilizers, aluminium)

and 47 per cent of Den Norske Bank, the biggest commercial bank, 82 per cent in Statoil (oil), 78 per cent in Telenor (telecoms), 100 per cent in NSB (railways) and 100 per cent in Statkraft (power generation). Overall, the state holds about 40 per cent by value of the local stock market. One worker in three is in the public sector. State businesses operate on strict commercial lines, but the Norwegian authorities and the people oppose foreigners taking over Norway's natural resources. In fact, the government blocked a Finnish bid for a big Norwegian insurer recently. It is because of its fear of global market forces that it does not want to join the European Union (*Economist*, 15 December 2001).

### Public Sector in East Asian Countries

The East Asian countries have for many years been the fastest developing countries in the world and indeed a model for other developing countries, but many are not aware that a major factor for their success is the active role played by the state. The government of these countries did not leave major economic activities to be determined by the invisible market forces; instead, they guided, supported and protected indigenous enterprises, sometimes in defiance of market forces, and actively participated in economic activity. They in fact selected the sectors in the manufacturing sector, which should be developed into major future industries and supported them by subsidies, concessional credit, restriction of imports and other concessions. They imposed restrictions on foreign ownership of property, such as land in South Korea and banks in Malaysia and Thailand and controlled foreign investments to discourage those which threatened or competed with them. None of these restrictions and discriminatory practices discouraged foreign investment; on the contrary the East Asian countries received more foreign direct investment than all the other developing countries.

East Asian countries do not see any conflict between encouraging private enterprises and maintaining state-owned business undertakings. Malaysia, one of the most rapidly growing economies in the world had more than 800 state firms in the mid-1980s, the largest of them being the Heavy and Industrial Corporation of Malaysia (HICOM) which established nine subsidiaries in such areas as steel, automobiles, cement and paper; much of the growth in the early 1980s was due to HICOM. Indonesia had 164 state-owned firms worth \$ 60 billion and employing 700,000 workers in 1997; state-owned BULOG has the monopoly of import of basic foods, rice, wheat, corn, sugar,



soyabeans and fishmeal. South Korea has 141 state firms including banks and industries such as the Pohang Steel Works and Thailand 67 state firms. In Taiwan some of the largest banks and industries are state-owned while in Singapore, about 60 per cent of its GDP is generated by state-owned and state-linked businesses such as Singapore Airlines, the most efficient airline in the world, Singapore Telecom, Development Bank of Singapore, Government Investment Corporation (GIC) and its subsidiary GIC Real Estate, which owns 125 real estate investments in 25 countries. The major listed companies owned and managed by government's Temasek Holdings amount to 24 per cent of the total capitalization of the Singapore stock market. It is important to note that most of the state-owned firms operate efficiently and earn profits to feed government revenue.

Public investment in East Asia is nearly equal to private investment and plays a bigger role than in any other region. IMF's pressure resulted in the shrinking of the public sector in most developing countries but not East Asia. In 1997, public investment constituted only 16 per cent of total investment in Latin America, 28 per cent in South Asia (25 per cent in Sri Lanka) and 32 per cent in Sub-Saharan Africa but 45 per cent in East Asia. The rapid growth of East Asia which exceeded that of other regions owes much to its large and dynamic public sector. Latin America has the smallest public sector but its average annual growth of GDP per capita in 1990-1999 was 1.7 per cent while East Asia which has the largest public sector achieved 5.9 per cent. It should not be forgotten that the country with the highest growth rate of per capita GDP in the world - China with 9.5 per cent - has the largest public sector in the world. The oft-repeated IMF statement that the public sector needs to be reduced to promote growth has no foundation.

The East Asian countries are the most rapidly growing countries of the world, as a result of their high levels of domestic investment funded mainly by their equally high levels of domestic savings. They are also the biggest recipients of FDI among the developing countries. Some believe that investment is high in these countries because FDI is high, but actually it is the other way round - FDI is high because domestic investment is high. FDI though substantial as compared with other developing countries, funded only a secondary part of their total capital investment. Thus, in the ten years 1988-1998, FDI accounted for about one-fifth to one-fourth of total investment only in three of the 10 East Asian countries; it was negligible in two and was moderate - 5 to 10 per cent in the rest. In other words, the greater part of investment in

these countries was financed by domestic savings and it is these high levels of domestic savings and investment which attract FDI. Besides, domestic investment is high in these countries because public investment is high. It is the low ratio of public investment that results in lower gross domestic investment, little inflows of foreign capital and lower economic growth in South Asia and Sri Lanka.

### High Growth from High Public Investment

The relationship between public investment and growth and between public and private investment is illustrated by Sri Lanka's experience in 1978-1981. The highest sustained average economic growth in the country was in the four years 1978-1981 when it reached 6.5 per cent from the low level of 2.6 per cent in the previous four years 1974-1977. The high growth of 1978-1981 was caused mainly by the high level of investment: average annual gross total domestic investment rose from 15.5 per cent of GDP in 1974-1977 to 26.9 per cent in 1978-1981. Total investment rose so sharply because public investment rose significantly - nearly doubled - from the average annual level of 7.8 per cent of GDP in the previous four years to 14.4 per cent in 1978-1981, mainly on account of the massive investment in the Accelerated Mahaweli Development Scheme and partly as a result of the new Parliamentary Complex, port development and expanded public housing. With the decline in public investment in these projects average economic growth dropped to 5.0 per cent in the four years 1982-1985 and then to 2.7 per cent in 1986-1989.

Increasing public investment in 1978-1981 also stimulated expanding private investment as contracts for the building and construction of dams and other projects in Mahaweli, for example, were awarded to specific private firms and purchases of equipment and materials were made direct from other private firms. In addition, the expanding employment and income from public investment, resulted through the multiplier effect in increased business in the private sector. Thus, average annual investment in the private sector rose from 7.8 per cent of GDP in 1974-1977 to 11.6 per cent of GDP in 1978-1981. In the previous four years public and private investment were equal but in the latter four years, public investment exceeded private investment. This rise in public investment instead of "crowding out" the private sector, boosted it and private investment increased by about 50 per cent.

Investment and Growth				
Years	Average Annual Growth of GDP %	Gross Domestic Investment as % of GDP		
		Total	Public	Private
1974-77	2.6	15.5	7.8	7.8
1978-81	6.5	26.9	14.4	11.6

The need to raise public investment to promote economic growth by improving the infrastructure and stimulating private investment is paramount. The current level of public investment is too low. In the last six years 1995-2000 for example, public investment amounted to 6.7 per cent of GDP - in contrast to 14.4 per cent in the highest growth years of 1978-1981. Average private investment was 19.1 per cent of GDP and total domestic investment was therefore 25.8 per cent of GDP. In the same period, investment ratios of East Asian countries, despite the serious economic downturn of 1997-1998, was much higher for example, average annual investment ratio to GDP was 38.4 per cent in China, 34.5 per cent in Singapore, 34.0 per cent in Malaysia, 31.0 per cent in South Korea and 29.8 per cent in Thailand. The major reasons for this high level of domestic investment in these countries are the high level of public investment and high levels of domestic savings.

It is pointed out by some that we are unable to increase public investment even if it is necessary because we lack resources. They fail to see that the government lacks funds because it has deliberately reduced its revenue by lowering taxes when the desperate situation demands higher taxation to finance rapid economic growth. It is not too late for the government to take measures to raise public investment - both by higher taxation and foreign borrowing - for that is the best method, as proved by East Asia, of increasing total gross domestic investment, attracting more FDI and achieving high economic growth.

### Need for the Public Sector

The state cannot entrust the task of economic development to the market forces and wait patiently for the free market to deliver goods. In a developing country like Sri Lanka where private enterprise is still generally undeveloped, the state has a responsibility to regulate the market to prevent abuses and to undertake directly a good part of economic development. High economic growth and equitable distribution of opportunities and benefits require a dynamic public sector playing a leading participatory as well as interventionist role in the economy; without it, economic growth can never be pro-people can never provide them with opportunities for economic and social advancement, can never safeguard the interests of future generations. We have to be conscious of the fact that markets have no conscience and do not promote social justice; it is only the government, which can ensure it. This may sound as a heresay to those believing in the Washington Consensus, but as Joseph Stiglitz,



the former chief economist of the World Bank and economic advisor to President Clinton, pointed out recently, the most successful developing countries are those which have not followed the precepts of the Washington Consensus.

The role of the state in the era of globalization is as important as ever for capturing the new opportunities in trade, investment and migration, protecting people from the new vulnerability and insecurity created by the market forces, insulating the economy from external shocks, reducing the inequalities in opportunities for human advancement, to narrow wide economic disparities in income and wealth and to protect the indigenous culture and the environment. Open economy does not mean that the state should abdicate its crucial role in protecting its people and natural resources; it does not mean dismantling of subsidies, controls and regulations designed to protect, support and promote the country's economic and social interests - to increase domestic food and milk production to uplift the rural economy, to encourage import substitution while promoting export-oriented industries, to channel foreign capital to nationally important sectors such as electronics, automobiles and heavy industries, to utilize resources of international institutions and transnational corporations without allowing them to dominate our trade, industry and economic policy. Increased public spending on education to improve skills and raise productivity and on health and welfare to improve health and raise productivity and on better labour relations to produce a more contented labour force are in fact necessary to attract foreign capital to a country.

It is true that several state-owned corporations are running at a loss, but it is not because of state ownership but bad management, for nearly all state-owned firms in East Asia operate at a profit. The fact is that we have politicized public corporations by appointing all officers from the chairman down to the labourer for political loyalty than for competence, overstaffed them with cronies and interfered with their policies and inevitably they operate at a loss; and when they are making losses we call them inefficient and call for privatization. Virtually all public corporations can be run efficiently if they are allowed to operate as commercial enterprises freed from political interference; and then they can become assets providing revenue to the government as in East Asia.

Public ownership does not discourage foreign

investment as the IMF argues. In fact, the *Economist* of September 29<sup>th</sup> 2001 emphasizes it as follows:-

"As for public ownership, on balance, global capital doesn't much care. Investors lending to publicly owned enterprises may see advantages, in fact, notably government guarantees on the debt. China has many state-owned enterprises, and seems to have no trouble attracting inward investment".

Critics of public business enterprises, conveniently ignore the inefficiency of large private business enterprises. Enron, the 6<sup>th</sup> largest energy company in the world, crashed in the biggest corporate bankruptcy in US history in December 2001 amid accusations of abysmal management, dubious accounting, hiding true facts from shareholders and the public, bribing "auditors" with excessive fees to project a false picture, lies and fraud, with many losing their life savings and jobs. Wall Street's credibility and faith in the free market have been shattered. Deregulation has suffered a severe blow: if a huge private company like Enron can go bankrupt due to mismanagement and dishonest practices, how can you trust other private companies to provide you with electricity, gas or water! The *Newsweek* of December 10 2001 refers to the Enron crash as follows:-

"It claimed it would revolutionize life and commerce by substituting the efficient hand of the market for the clumsy hand of government regulation. But Enron's leaders proved to be every bit as bungling as any government bureaucrat. Sift through the financial debris, and you see that Enron lost a total of about \$ 7 billion on four dumb investments..."

As to deregulation/privatization of utilities the same *Newsweek* has this to say:-

"But deregulation has caused lots of problems. In 1998 the Midwest had huge electricity price spikes and rolling blackouts; some utilities had sold power outside their service areas and the traders they were relying on to replace that power didn't deliver. Upstarts have dropped in and out of retail markets in several states, sticking established players with big costs. And of course, there's California, which got caught with too little energy in the spring (helping Enron and others make big profits) and now is stuck with too much expensive energy. This has crippled the state's finances, driven its biggest utility into bankruptcy and

clobbered customers. Leaving vital necessities like electricity and natural gas to the tender mercies of the market is too risky. Especially when a big player like Enron can vanish overnight".

Further, theoretical and empirical research on privatization does not provide clear and definite support to the IMF view that privatization of state enterprises increases efficiency and contributes to rapid growth. The evidence is mixed; some support it while others reject it. Studies of Stephen Martin and David Parker (*The Impact of Privatization: Ownership and Corporate Performance in the UK*, 1997) for example, conclude "Generally the great expectations for privatization evident in Ministerial Speeches have not been borne out". In reviewing a number of other international studies that compared state and private sector enterprises, they find that the evidence is mixed; there are several studies that point to superior efficiency in the public sector. They conclude: "In sum, the international studies do not provide unequivocal support for privatization programmes". John Weiss who studied 500 largest enterprises in Mexico in 1985-1990, concludes in his book "*Mexico: Comparative Performance of State and Private Industrial Corporations*": "In terms of the influence of ownership, which is the main focus of this analysis, there is no support for the view that state ownership *per se* implies poor performance... What is clear... is that the results give no support for privatization of the remaining enterprises on efficiency grounds".

The crux of the matter is that both the public sector and the private sector are the engines of growth: one alone is inadequate. In a growing economy there is room for both to co-exist. There are enough projects, which the private sector can undertake and there are many others, which are shunned by the private sector, which the state can undertake. Public investment in developing countries complements rather than displaces or crowds out private investment. Both are necessary. As Professor Toynbee has pointed out, every social system in history has been a mixed system combining the public with private enterprise. In our own times, the highest economic growth rates have been achieved by the mixed economies of East Asia.



# Managing Sri Lanka's Administrative Reform Agenda

Sri Lanka appears to have reached a point in its history when administrative reform has become a major focus of the polity, the society and the economy. Frequent references to administrative reform are continuously being articulated – at least to go by the frequency with which it figures in the media. These references come from a range of sources.

Different points in the political executive stress the urgency of administrative reform. The legislature does not lag behind. Frequent in these pronouncements are the varied references to what should constitute the content of the reforms. The discourse, if nothing else, provides a fascinating array of suggestions. It would be of interest to future researchers to study the links as between the varied suggestions and the individual or group interests of the articulators!

Equally active in the discourse is the donor community. As is to be expected, the activity of the donor community is led by the multi-lateral aid agencies. The need for administrative reform is stressed not only in different fora but also in interactions with policy levels. However, the road map that should be followed to achieve the articulated need tends, mainly, to be indirectly articulated.

The corporate world – through its several organizations – continues to signal the need for administrative reform and to draw attention to the co-relation that exists between effective governance and the pace of economic growth. Given the pre-occupation of the organizations of the corporate world with the objective of making the administrative structures and processes 'business-friendly', suggestions abound as to the directions that the administrative reform process should take and even what its content should be. Memoranda are prepared and submitted to the political executive as well as publicised. Conferences, seminars and the like are convened at frequent intervals to discuss various issues related to administrative reform. Given the close relationships that exist between the corporate world and the media, these events and their proceedings receive considerable publicity. This serves to keep the issue of administrative reform alive before the public.

Increasingly, the community of civil society organizations finds the different aspects of ad-

ministrative reform a major issue on its agenda. As could be expected, this results in the conference scene being crowded with discussions on these different aspects. The resultant outputs as well as the public information fallout from these events has contributed to enhancing public awareness of the issues related to administrative reform.

Equally active, but in a different stance, are the trade unions in the public sector. They see the prospect of reforms as sounding a death knell to the relatively comfortable existence that they have had, a threat to uninterrupted employment, as well as a loss of privileges. It is to be expected that they would mobilise themselves against the possibility of the formulation and implementation of a reform agenda. At the same time, their public activities – comprising demonstrations, meetings, publicity materials and even industrial action –

## Dr. Shelton Wanasinghe \*

contribute to the debate and keep the issues of administrative reform in the public gaze.

However, the citizenry appear to remain passive concerning administrative reform. It is clear from empirical evidence that the citizens in their daily interface with governance perceive that the administrative entities that they have to deal with are ineffective. At the same time, they see 'the administration' as something alien and distant – over which they lack any influence for change. They tend, thus, to regard the administrative structures and processes as something that they have to suffer with resignation.

## The Reform Priorities

The directions and contents of the reform agenda have been issues that have received frequent attention for a considerable period of time in the multi-faceted discourse that has been referred to. The attention has been most pronounced in the past decade and a half – since the work of the Presidential Committee on Administrative Reforms in 1986 to 1988. However, given its nature as well as of its participants with their various interests it is not a surprise that the discourse has not yielded an agreed agenda of reforms.

Given the constraints of space, it is not the intention of this discussion to provide a detailed agenda of reforms. As the agenda evolves it would need to be spelt out in great detail and specificity in terms of its constituent elements and supporting activities. What is critical, however, is to gain an

understanding of the priority issues that such an agenda will need to address.

These priority issues would need to be derived from an examination of the nature and degree of decline of the effectiveness of Sri Lanka's administration since the early decades of the post-Independence period. What is critical would be to escape the trap of treating the symptoms of the disease and to engage in a systematic probe of the factors that have led to the current level of effectiveness. The available evidence points to several critical issues that require to be addressed if the decline of administrative effectiveness is to be arrested and reversed. What is significant in regard to these issues is that addressing any of them would call for the making of decisions that would require overcoming entrenched political and/or trade union interests.

This discussion recognises that this, in the Sri Lankan context, is an extremely difficult process that has to be pursued with determination and single-minded purpose – with a readiness to face the consequences and counter them regardless of the political price that would have to be paid. The empirical evidence concerning the previous episodes of attempts at administrative reform bring this out clearly – in that the failure of these attempts were a direct consequence of the absence of the required political will.

With the above caveats, the ensuing discussion will attempt to identify the key issues that would require to be addressed. It is recognised that the issues would be many and that the list will grow over time. Hence, this discussion would limit itself to the issues that are most urgent and relevant as at the end of the year 2002 – whilst acknowledging that it is by no means exhaustive.

The first and primary issue to be addressed is the arriving at of a clear definition of the role of the government in Sri Lanka. Much has been written on this issue but without an appropriate and adequate response from those engaged in administrative reform. It is obvious that unless there is clarity as to the role of the government at the beginning of the twenty first century, there cannot be an appropriate process of restructuring of government institutions or of the determination of the numbers and specific categories of personnel that need to be employed. That the roles of the government that were relevant at the time of Independence do not hold relevance

\* Senior Visiting Fellow - Institute of Policy Studies



in 2002 is obvious. But the vested interests that have grown up around the archaic definition of the roles of government have been strong enough to discourage decision makers – both political and administrative – from attempting any review. It has to be stressed in this connection that the redefinition of the roles of government should apply not only for the government as a whole but also across the three levels of the polity – the Centre, the Local Community and the Province.

The second main issue to be addressed is that of the setting of the size of the political executive at the Centre in conformity with the definition of the roles of the government. Whilst there is a certain measure of constraint as regards the political executive at the level of the Province consequent to the specific legal provisions contained in the Thirteenth Amendment to the Constitution, no such restraint arises in the case of the Centre. The traditions that have grown up over the decades with the growth of the size of the Parliament at the Centre and the imperatives of coalition formation, have contributed to a continuous burgeoning of the size of the political executive – leading to rising expenditures, expansion of sequential cadres of personnel and confusion and overlapping in regard to policy making.

A related third issue that requires to be addressed is that of the reform of the structures and the processes in the central legislature. The main objective that needs to be achieved through a process of restructuring and of adopting new processes is to reverse the current ineffectiveness of the central legislature in its role of decision-making in public policy management and of being the watchdog of the implementation of public policy.

The setting up of effective independent regulatory institutions is a fourth issue that the reform agenda will need to address. This issue has assumed importance in the context of the past and current failure of the Sri Lankan State to be relevant and efficient in its regulatory role with the country having moved to a market-led economy.

The modalities and processes for the progressive withdrawal of the State from direct engagement in economic activity constitute a fifth issue to be addressed. Whilst such withdrawal remains an ultimate objective of the restructuring of the State, the processes for achieving this objective remain complex and the concerns that have to be addressed in their implementation are such that an unplanned rushing into divestment will both be counter-productive as well as be a potential for societal unrest.

The addressing of the issue of the role of the government must, necessarily, lead to the examination of the relevance of all current ad-

ministrative entities in the context of the changed role. This, the sixth issue to be addressed, would, naturally, be the one that would evoke the highest level of resistance from vested interests – both political and bureaucratic – that are entrenched in the continued life of current administrative entities. Hence the level of determination that would be forthcoming from the highest levels of governance would be critical in addressing this issue.

The redefinition of the roles of governance also has its implications for the quality of human resources that would, in the future, be required in State employment. Hence, the introduction of personnel induction, management and capacity building approaches to achieve the objective of having cadres that are relevant, skilled and productive would be a seventh issue that would need to be addressed.

There is a critical issue of administrative reform that can and must be initiated immediately. This is the conduct of a fast-track review of the relevance of all the current public institutions, agencies etc to the discharge of governance responsibilities of the present. This has to be a ruthless exercise. The best and shortest approach would be for the Task Force on Administrative Reforms – or a group

the institutional arrangements for the management of the reform agenda assume critical importance. On reflection it is clear that the previous exercises failed due to the ignoring of this issue and taking the institutional arrangements for granted. There are, thus, lessons to be learnt from the past exercises and their failures so that a future exercise could have a better expectation of success. It is on the basis of reflection on the past failures that the following discussion would deal with some of the institutional issues.

Before launching on any administrative reform exercise, it is critical to decide on the issue of the responsibility for formulating and implementing the agenda and, thereafter, to assign such responsibility in a manner in which there would be no confusion. Confusion, invariably, arises in the polity, the bureaucracy as well as in the minds of the citizenry. Multiple points of responsibility in the formulation and implementation of an administrative reform agenda will lead not only to confusion, but also to turf-based conflicts, to sabotage of elements in the agenda and to ultimate failure.

Once the locus of responsibility is clearly decided upon and assigned, it is important that adequate time be spent in formulating the agenda in detail as well as the arrangements for its implementation and the time frame for the process. It would be counter-productive to rush the process – an ever-present temptation to gain political capital by seeking to impress on the citizenry that a 'move is on'.

A basic requirement would be to adopt a holistic approach to the formulation of the reform agenda. It is essential to

keep in mind that the different issues that are addressed in the reform exercise are closely inter-related. Hence, the different elements of the reform agenda would have a direct bearing on one another. It is, thus, important that all elements in the agenda should be developed and formulated in the closest interaction with the fullest consultation. The resultant reform agenda should not be the product of an approach of assembling together discrete pieces formulated by individuals or small groups working in isolation without adequate interaction. The Task Force, if there be one, should carry joint ownership of the total agenda.

In setting the process of administrative reform in motion, it is important to take account of the realities of the current Sri Lankan political and administrative culture – wherein nothing moves unless the process is, and is seen to be, presided over and monitored by the lead point in the polity. In the present Sri Lankan context this



An agitation of the health sector workers in progress. Vital enterprises of State sectors often resort to trade union action putting public into inconvenience.

within it – to conduct face-to-face inquiries whereto the heads of all public sector organizations are summoned and requested to justify the continuance of their organizations. They should be required to provide proof of any adverse consequences to the economy and to the society that would result in the event of their organizations being abolished.

Linked to the above issues would be many other issues and sub-issues that would call for attention as the reform agenda is in process. This requires that the nodal point that would manage the formulation and implementation of the reform agenda would have to be continuously alert to the new demands that are likely to be posed as the agenda proceeds. This need makes the institutional arrangements for the management of the reform agenda critical to its success. This issue would be dealt with in the ensuing discussion.

### The Institutional Arrangements

Given the above context, the issues concerning

Contd. on Page 15



# Role of the Public Service in Regaining Sri Lanka

The performance of the Sri Lankan economy since the introduction of a market-oriented policy framework in 1977 has been encouraging, although there were temporary setbacks from time to time. The annual average economic growth accelerated to 4.5 percent for the period 1977-2001 from 3.5 per cent for 1950-1977. The higher growth rate, coupled with decelerating population growth, raised per capita income from US dollars 106 in 1950 to US dollars 294 in 1977 and further to US dollars 838 in 2001. Thus, annual average per capita income growth rose to 4.3 per cent for the period 1977-2001 from 3.7 per cent for 1950-1977. Even though some vulnerabilities still seemed to continue, the resilience of the economy has strengthened with a diversification and modernization of production as well as exports, while increasing the link with the global economy. The share of the private sector in economic activity has increased gradually, raising efficiency in the economy. The unemployment rate declined, albeit slowly.

However, despite positive economic achievements on many fronts, Sri Lanka's economic development has been far behind East Asian countries. Furthermore, the country's performance was even overtaken by a number of other Asian developing countries, which started economic reforms much later, largely owing to weak policy adjustments and slow economic reforms. Consequently, major economic problems such as slow growth and low productivity, coupled with inadequate savings and investment, persistent high inflation, unemployment, under-employment and poverty, serious macroeconomic imbalances and vulnerability to external shocks not only still continue to remain, but have been aggravated in some instances, posing greater challenges to macroeconomic management. In this regard selected macro economic indicators are shown in Table below:

In 2001, the national income (GNP) has dropped by 1.3 percent. In real terms, this amounted to decline in per capita national income from US\$ 881 to US\$ 823, or by nearly 7 percent. This clearly demonstrated the vulnerability of the Sri Lankan economy to external shocks and the need for measures to strengthen the resilience of the economy.

There is no doubt that some factors, which are beyond the country's control, may also have

contributed to such developments; but that should not be an excuse for weak performance. In fact, such factors should be taken as challenges for prudent macroeconomic management by pursuing timely and adequate remedial measures to minimize their repercussions. Given the fast changing global events and the potential for rapid growth following peace, managing the inevitable change with least cost to the economy and social life would be an uphill task for policy makers in the short to medium term. This would require changes not only on the economic front but also in cultural, social and attitudinal areas. The above situation in the Sri Lankan economy made clear the urgent need for strong policy adjustments and bold economic reforms in order to ensure an early recovery. Therefore the Government of Sri Lanka has introduced the new concept of regaining Sri Lanka which presents the Government's strategy to meet the economic challenges facing country and to put economy on a path where we can reap benefits of a vibrant economy.

Hon. Minister of Finance in his Budget Speech - 2003 presented to the Parliament, explained the current economic status of the country as follows:

"In 2001, for the first time since independence, a negative growth of 1.4 percent of GDP was re-

## Ariyaratne Hewage \*

corded. Inflation rode at 14.2 percent. Both industrial and agricultural production had contracted; so also export earnings. The share market was stagnant. The budget deficit rose to 10.9 percent. The public debt stock had spiraled to Rs. 1,450 billion. Every man, woman and child in Sri Lanka carried on his or her shoulder a liability of Rs. 77,500/-, being the pro-rata share of the country's debt burden. The servicing of this debt had crippled growth. Government owned institutions providing mainly utility services, such as electricity, supply of petroleum and public transport, were indebted to the local banking system to the extent of Rs. 41 billion. A severe shortage of power added to the nation's gloom."

(Budget Speech - 2003)

The government in its vision to achieve rapid development has prepared the broad framework as 'The Future - Regaining of Sri Lanka'. In this framework of vision for acquiring rapid economic development following four key challenges have been identified to be over-

- Increasing Employment creating 2 Million New Jobs.
  - Overcoming the Public Debt Crisis.
  - Resources for Reconstruction.
  - Increasing Income Levels - Higher productivity & increased Investment.
- (The Future Regaining Sri Lanka - 2002).

## Public Sector Reform

Improving efficiency in all sectors of the economy requires high priority in the pursuit of such rapid economic growth. Improving the productivity of public sector would become a great challenge in this process. It is therefore, proposed to undertake reforms in the public sector with a view to improve its efficiency and effectiveness.

The Government has approved in principle to introduce measures recommended by the Administrative Reform Committee (ARC) appointed by the Hon. Prime Minister. The ARC has recommended an urgent need for a time-bound comprehensive plan to create a public service that is efficient, modernized and responsive to the needs of the people and the government. Some key features of the plan are as follows:

- A re-structured and leaner government through VRS (Voluntary Retirement Scheme) for excess categories;
- Upgrading of the skills of public officers at all levels in line with their present role as catalysts and facilitators of development in a new globalized competitive environment;
- Inculcating a citizen friendly approach among public officers;
- Re-engineering of government processes to make them efficient, transparent and citizen friendly, taking advantage of modern technological developments. Introduction of e.government as in many neighboring countries is a specific need. Overhauling the regulatory framework of government transactions to permit efficient, expeditious

Selected Macro Economic Indicators				
Item	1980-1989	1990-1996	2000	2001
GDP	4.2	5.3	6.0	1.4
Unemployment rate, percent		13.4	7.6	7.8
Gross domestic Investment	26.2	24.4	28.0	22.0
Foreign Savings	13.3	9.7	10.6	6.7
Balance of Payment	-8.1	-6.1	-6.4	-2.4
Exchange Rate	-9.1	-4.8	-12.7	-11.3

Source: Central Bank of Sri Lanka

\* Author obtained a MPA Degree from the West Virginia University, USA and presently hold the post of Senior Secretary, Ministry of Urban Public Utilities.



and transparent conduct of business is another requirement in this connection.  
(Administrative Reforms Committee – 2002)

It is very essential to take a serious look at the public service of Sri Lanka and redefine its role to make it enable to face the challenges of the day. Various persons try to define the role of the public service without taking into consideration the total context in which it operates.

Some senior or retired public servants proudly recall their experience four to five decades ago. They sometimes say that they as public servants never bowed down to any pressure including political requests during their time. They think that public servants should be independent and that all required authority should be given to them to enable them to run the affairs in the country. If they are allowed to work independently, they believe, that the country can achieve a higher level of economic development. In contrast, some other people think that the public service today should play an entirely different role. Consecutive governments have recognized the current global trends and accepted that the private sector should play a bigger role in economic development. Private Sector is therefore, recognized as the 'engine of growth'. In this context, some believe that the public servant should play the role of a facilitator, who should extend all possible support to the private sector in their efforts. Can all public servants be facilitators all the time? Or can they be law enforcers all the time? Otherwise what should be the role of the public servants today? A simple answer to all such questions is that the role of the public servant, today is not a linear and simple one. It is a very complicated role, which needs to be played very carefully and diligently.

Today, the public service is facing serious challenges unlike in the past. They have a key role to play in transforming the government's policies into action. Public Officers are expected to produce tangible and positive results within a given time frame. In this context, public officers cannot confine themselves to traditional and orthodox roles and achieve the given targets. In the post independence era, they had to perform some clearly defined functions such as maintenance of law and order, collection of revenue and supply of essential goods and services. Today, public officers have to perform varied functions, according to the situation they face and the type of job they hold. Therefore, they cannot perform some direct functions and maintain the bureaucracy' as was done earlier. They have to play multiple roles to address the new and complex issues and problems they face. They should have a sound knowledge of such issues and skills to analyze and resolve them to the satisfaction of many people. Public Officers should be fully equipped and capable

of handling the varied problems and situations. It is therefore, not easy to clearly define the role of the public service. The role of the public service is therefore, multiple and its approaches should be changed according to the situation it faces and the position its members hold at a given point of time.

### What is the Public Service?

For the purpose of this article the public service is defined to include public institutions at national, provincial and other sub-national levels including the local government service. This also includes some types of semi government institutions particularly those involved in providing services for the benefit of the public. The important phenomenon is that the public service is the main "operational arm" of the government. In a democratic polity, the government runs the administrative, economic and social affairs of the country for the benefit of its people. The government is basically comprised of two main groups. One group includes the elected representatives of the people at national and sub-national levels. They are expected to play an important role on behalf of the people in a "representative democracy". The other comprises of appointed public officers who are expected to "operationalize" the government's policies, plans and programmes. The required powers, authority and resources are made available to public officers to perform this function. In some countries, the public service is referred to as "the civil service" to distinguish it from judiciary or armed services.

As Herman Finer said, "the civil service is a professional body of officials, permanent, paid and skilled. It means that it is primarily a body of professional administrators as distinguished from politicians who are elected on party lines." The public or civil service is expected to adhere to certain requirements. As E.N. Gladen points out, "the requirements of the civil service are that it shall be impartially selected, administratively competent, politically neutral and imbued with the spirit of service to the community." It can be observed in many countries that the public service has been actively involved in running national affairs over the last few decades. However, the role of the public service is vastly different today. In England the civil service reforms which were introduced during 1980s have redefined the role of government by introducing a concept of 'new public management' (NPM) in place of the old public administration and redrawing the boundaries of the State. Overman and Boyd consider that this process has resulted in a paradigm shift' in managing of the government.

As Rosenbloom explains public administration can be defined in many different ways. What is important is to define it in the context of country's socio-economic development at a given point of time. Thus Rosenbloom says that "the process of public administration consists of the actions in-

involved in effecting the intent or desire of a government. It is thus the continuously active, 'business' part of government, concerned with carrying out the law, as made by legislative bodies (or other authoritative agents) and interpreted by the courts, through the processes of organization and management."

(D.H. Rosenbloom – 1998)

In Sri Lanka too, it is therefore, very essential to take a serious and fresh look at the public service and the roles it is expected to play in the context of the changing environment.

### Key Roles

There can be various roles that public service is expected to play from time to time. An important feature which requires to be noted is that these roles differ according to the position the respective person holds at a given point of time. A Secretary to a Ministry for example, is required to be answerable for several authorities. He or She is directly responsible to the Minister concerned and at the same time to the Head of the Government and to the Parliament. Therefore, a Secretary plays a complex and multiple role. The Commonwealth Secretariat in a paper published in 1999 had identified three basic roles of a Permanent Secretary (Executive Head of a Ministry).

These three basic roles are as follows:

1. Policy Advisor to the Minister -  
The Permanent Secretary is expected to provide objective advice on policy issues, on the government's options in dealing with them and the implications of each option.
2. Head of Ministry -  
The Permanent Secretary should direct and manage on the Minister's behalf and within the law, a ministry of government and ensure that the work is carried out efficiently and effectively.
3. Member of the Public Service Top Management Team -  
The Permanent Secretary shares a collective responsibility for the management of the public service as a whole and is expected to ensure that initiatives of the ministry are consistent with overall governmental objectives.

(Commonwealth Secretariat – 1999)

These could be considered the basic role of a Secretary. However, there are several other roles that senior public officers at policy level are expected to play. Similarly public officers at middle and first line levels would also play diversified roles at different times.

Some key roles that public officers are expected to play are presented in this article. There can be additions to this list and roles may change according to the changing patterns of social, economic and political trends.



## Facilitator

Many persons including top political leaders, private sector executives and senior public servants who are mainly involved in country's development efforts are of the opinion that public officers should play a role of a 'facilitator' in the present context. Public Officers are expected to identify the problems faced by the entrepreneurs and investors of the private sector and deliver the required services in an expeditious manner. It has been reported that several investors including some foreign companies have abandoned their projects due to undue delays in obtaining the necessary approvals from government. These services include permits for land, supply of infrastructure needs (electricity, telecom etc.), environmental clearances, duty waivers and various registrations. It may be useful to study in detail, whether there had actually been undue delays on the part of the public service. However, the lethargic and rigid attitudes of some public servants may have led to shortcomings and delays in some instances. As facilitators, the public servants are not expected to grant approvals blindly but are expected to consider broader national interests. It is necessary to deal with such requests with positive attitudes and extend fullest cooperation to the genuine private investor. Public servants therefore, should think innovatively, analyze all issues and display their rediness to cooperate in the case of genuine proposals for development. Public officers need to be flexible and should look at the issues from the point of view of the developer.

The normal approach of public officers to look at rules and regulations from a rigid point of view should be changed to one of accommodation. They should be open minded in dealing with the investors and consider each case on its merits. Public servants should recognize that capital, technology and management capacities are available with private investors. They should also ensure that proposed projects would not destroy the natural resource based and are in harmony with the socio-cultural norms and the legal framework of the country. A good example for this type of approach can be found in the Malaysian public service which recognizes that a strong private sector would emerge through a public service of high quality. A key feature of the Malaysian Public Service, called the Malaysia Incorporated Policy expects public officers to encourage and promote the private sector in the country's development process. Thus, "The Malaysia Incorporated Policy stresses the importance of cooperation between the public and private sectors in order to ensure rapid economic growth and national development. The success of the private sector leading to its expansion and increased profits will provide more revenue to the nation through the

collection of various government taxes. It is therefore crucial that the public sector ensures the success of the private sector."

This policy is considered as one of the major strategies of national economic growth. "It is based on the underlying philosophy that cooperation and collaboration between government and business is essential for accelerated industrial development. The objective is to harness the inherent potentials of such collaboration in vitalizing the national economy towards rapid industrialization and maintaining international competitiveness in a global economy."

The Malaysia Incorporated Policy has been accepted as a new way of approaching the task of national development. "The fundamental basis of approach is that successful national development requires the public and private sectors adhere to the perception of the nation as a corporate or business entity, jointly owned by both sectors and working in tandem in pursuit of shared corporate goals."

It has been recognized that responsibility of the public sector is to create a conducive environment that will provide the right impetus of accelerated economic growth. The role of the public sector in Malaysia is redefined in relation to the changes in the external environment. Therefore, "While the private sector has been entrusted with the lead role in spearheading economic development, the public sector has to play its role as an equal and productive partner in ensuring overall national development. In addition to its traditional role of custodian of the public good and as implementer for socio-economic development programmes, the public sector has expanded the scope of its responsibilities to facilitate and support the private sector's growth and expansion."

(*Malaysia Incorporated Policy - 1991*)

Similar changes have been introduced in England too. The traditional culture of the civil service has been transformed into a "managerialist" role. It is more compatible with the concept of an "enabling" state rather than a welfare state. As Farnham and Horton say, The 'Enabling State' is not the major provider of public services but the facilitator and manager of the use of public resources. The role of senior officials today is to advise government on how best to provide public services, using the criteria of value for money and economy, efficiency and effectiveness. There is a presumption too that competition is productive of all the "Es", including excellence and entrepreneurship, and that the public sector must therefore emulate the market and the private sector to achieve these. This transformation from a Welfare to an Enabling State has required nothing less than a revolution in the culture of the civil service and the introduction of the new public management and managerialism in place of the old traditions of public administration and professionalism."

(*Farnham and Horton - 1996*)

The Public Service of Sri Lanka can certainly learn from the above concepts and experience of other countries and then it will be able to improve its quality to face the challenges of 21<sup>st</sup> Century in an effective manner. However, it can be observed today, that many public servants are used to looking at the private sector as profiteers and violators of law. They tend to believe that the motive of the private sector is only to make profits at any cost. This notion is not correct. Today, the private sector is also organized and responsive to the public and the needs of the country. They also have realized that there is an important role they are expected to play in the process of the country's development. Public servants should be in a position to take the private sector into the mainstream of national development by providing the required opportunities. Today, it has become fashionable to say that public servants should be facilitators of development and encourage the private sector without considering the complexities of the roles that they are expected to play.

Some have gone to the extent of believing that public servants have no other role than that of a facilitator. This notion is not correct, when one considers the complicated nature of public officer's role. However, it is necessary to recognize that the role of a facilitator is vital and important in the context of present socio-economic development of the country. Therefore, public officers should develop their capabilities and change their attitudes to enable them to play the facilitator's role effectively.

## Advisors to the Political Leaders

Political leaders are expected to make the policy decisions with regard to matters related to the major areas of administration. However, it should be noted that political leaders are elected for a specific time period and they may not be knowledgeable in the subject area assigned to them. Public officers on the other hand, are expected to have competence and experience in the subject area. They should be able to develop knowledge and skills in their subject areas. It will not be practicable for public officers to believe that political leaders should accept all their advice, on the grounds that they are 'experts'. Political leaders will not accept the advice of public officers blindly. They are answerable to the public and would consider only what is beneficial to the public. The advice of the public officers should be rational and be based on facts and figures. Public officers should be in a position to analyze the issue and submit a few alternative solutions to the political leaders.

All these alternative solutions should contain the cost and benefit analysis. Then the political leaders will be able to evaluate the alternatives and select the preferred alternative. The senior



public officers at the national or provincial ministries should be able to present the alternatives to their ministers with the necessary data. Vishnoo Bhagwan and Vidya Bhushan in their book titled, "Public Administration", recognize the role of public officers as advisors to be very important. Referring to the functions of the civil service with special reference to the Indian Civil Service, they accept that, one of the primary functions of the civil service is to offer advice to the political executive. "Ministers rely on the advice of their senior officials who are the reservoirs of information and organized knowledge concerning the subject-matters which they administer. The political executive necessarily depends upon the civil personnel for the information that he needs in formulating his own programme. In the course of administration many problems arise which are usually worked out in the first instance by the civil service and then reported to the political overhead, if at all, for approval or merely for information". (Bhagwan and Bhushan - 1998).

The middle level public officers particularly those at district or divisional levels should also be able present alternatives to the local political leaders and clearly understand the nature of their role as an 'advisor' who is expected to give unbiased, positive and analytical data and information to political leaders. It is therefore, necessary that public officers develop their capacities in analytical approaches and presentation skills to perform this role effectively. Even if political leaders do not accept the advice of public officers, it is the responsibility of the officers to present their candid views and suggestions.

#### **Provider and Developer of Infrastructure**

Provision of basic infrastructure is a sine-quon for the promotion of investment by the private sector. Essential services such as roads, electricity, telecommunication, transport services, land, water etc. should be made available for industrialists and other investors. Delivery of such services is a key responsibility of the public service. Public Officers should identify the resources available in different areas of the country for various types of development. It may be tourism, agro-based industries, farming, manufacturing industry or any other development activity, the required basic facilities should be provided to the investors. Public officers along with other partners and experts should prepare long term, strategic plans for various development purposes and provide the necessary infrastructure requirements for the developers within the framework of such strategic plans.

In this case, public officers are not always expected to be the direct implementers of infrastructure projects. They can plan and monitor

the implementation of new infrastructure projects and maintain existing projects. They should encourage the private sector to come as developers of major projects such as ports, telecommunication, electricity, roads and highways, irrigation, water supply and other related construction works. Today, many such construction projects are implemented with the assistance of foreign donors. In most cases, such assistance comes in the form of loan to Sri Lanka. Public officers have an important role to play in planning and monitoring such projects. They must follow tender guidelines and ensure that they select the best developer who could provide quality and cost effective services. Public officers should adopt the transparent procedure in the process of selection of contractors. They should also be able to supervise and monitor the work of the contractor to ensure that the quality of work in accordance with specifications and within the given time frame. After the completion of construction, it should be put into immediate use. They should also take action to maintain such construction works with a view to continue the expected services without interruption. It has been observed in many instances that various constructions so completed lie idle without any benefits to the country.

#### **Practitioners of Social Responsibility**

There are minimum norms and standards required for the quality of life of the people. Pricing of goods and services is an important element in this regard. If the manufacturers, traders and other service providers are charging exorbitant prices, the cost of living will increase thus affecting the lives of the people. Public officers should intervene and bring about the reasonable changes in such instances. There are some special institutions set up for this purpose such as the Fair Trading Commission, the Standards Institution and the Department of Internal Trade.

In addition to prices, it is important to ensure the quality of goods and services available to the people. It can be observed through newspaper reports that there are many low quality products available in the market. Such reports often refer to food, drugs and other essential items which people need for their day today life.

Several adverse effects on the lives of the people have been caused by low quality products. Health authorities have identified many instances of incidence of diseases such as cancer, heart ailments, stomach disorders due to the toxic material added to various food items. Various chemicals added as preservatives and flavors for the food items also have caused adverse effects. In addition, it has been reported that there are low quality construction materials, motor spare parts, clothes and many other items available in the market. If public officers do not address the issue of quality, the public will suffer on the one hand whilst diverting the country's national income for remedial measures.

#### **Conservators & Protectors of Environment**

Many studies carried out by experts have revealed that the environment and the natural resource base is severely threatened today. It can be observed that there are many adverse effects not only on the environment but most severely on the lives of people themselves. As a result of ad hoc and short-sighted practices of the people, the natural resource base is destroyed and pollution levels have rapidly increased. The basic requirements such as air, water and land are polluted and impacts on the health of the people. While valuable soil is being eroded, reservoirs are silted. Unplanned economic development practices in agricultural, industrial and other sectors have caused serious environmental problems. Rectification of these problems will be costly and sometimes unaffordable. It is therefore, necessary that public officers address such issues well in advance, particularly during the planning stage of the development programmes and projects. They should promote the conservation of forests, soil, wildlife and other natural resources. They should on the other hand, take necessary precautionary actions to minimize the damage on environment caused by development projects.

The techniques such as Environmental Impact Assessment (EIA), Environmental Protection Licensing (EPL) and Strategic Environmental Assessment (SEA) can be effectively used by public officers to perform this function. It is important that public officers involve all the stakeholders including the developers and the communities in the processes of environmental assessment and management. Public officers should not go to extremes and consider that conservation and protection of environment should be achieved at any cost. They must plan to minimize damage, ensure the practice of cleaner technologies and mitigate the impacts on environment with a view to achieve sustainable development. Public officers therefore, need to work very closely with developers assist and encourage them to use good practices to protect the environment.

#### **Provider of Essential Goods and Services**

There are some good and services, which are basic need for living. Health, education, transport and supply of essential food items as such basic goods and services. Although, there had been some recent efforts to involve the private sector in providing such services, it is not possible to reach the masses, particularly the poor through the private sector. Provision of these services cannot always be performed as profit-oriented business ventures. It should be considered as a basic service that the government is expected to provide. Achievement of a high degree of Human Development Index (HDI)



such as 0.735 (1999) is also mainly due to the free education and health services.

Seventy percent of the country's population lives in rural areas and larger proportion of them fall into the category of 'poor'. Most of the rural people are engaged in subsistence level agriculture and other casual jobs and therefore, do not have a steady income. Members of poor families cannot afford to pay for basic services like education and health care. It is a prime responsibility of public officers to identify the real needs of such people and ensure that they receive good quality services. It is encouraging to note that field level officers engaged in primary health care, maternity and child care services are rendering a yeoman service by reaching all households scattered in the country particularly in rural areas. Teachers who provide the education through the public school system too are performing a commendable service to educate the rural children.

There is a large number of government hospitals and schools spread throughout the country which provide health and education services free of charge. The government's Annual budget allocations for health and education sectors have been considerable. Total public expenditure on health as a percentage of the GDP has been 1.4 (1998) and expenditure on education as a percentage on total government expenditure has been 8.9 and as a percentage of GDP, 3.4 (1997). The following Table shows the number of government hospitals and schools of different grades established in the country.

(UNDP - 2001)

Some health and education institutions established by the private sector are mainly confined to urban areas and only limited groups of people can afford such services. Transport of people and goods is also an important service. Although, the private sector is involved in the transport sector, the government has continuously provided the rail and road transport since these services cannot be fully privatized. Public officers have a great responsibility to ensure the uninterrupted provision of such services.

### Provider of Security and Defence

Security is an important requirement for the people to live a free and happy life. This would include security from external and internal threats. Although, the armed services are not considered as part of public service, there are public officers involved in policy and planning of security and defence services. In addition to the civilian officers police officers also are considered as public officers. Security and Defence services are predominantly provided by the state in any country. It is not possible to

involve the private sector to provide the common security and defence services. Therefore, the public officers have a great responsibility in performing such services.

They should identify the security and defence needs of the country at a given point of time, analyze such needs and the required resources and advise the higher authorities on the policies and strategies to be adopted. They also should coordinate the actions of the armed services and the police and ensure that they are within the policies and programmes of the government. Public officers are also expected to liaise with foreign authorities for possible linkages and assistance in this regard.

### Low Enforces

Enforcement of law in the country is an important functions of the public service. This helps to maintain law and order and ensures freedom of the people. When one person violates the law, it can effect many others. The responsibility of law enforcement cannot be transferred to any other sector and therefore, public officers should take special care in exercising authority and ensure justice and impartiality. Public officers working in such institutions as police, customs, immigration, cost conservation, forest and wildlife conservation, labour and other areas need to be mindful about the important nature of this responsibility. However, public officers should bear in mind that law enforcement is not to harass people, but ensure the freedom of the people.

Today, the critical issue is not the inadequacy of law, but its weak, lethargic and biased enforcement. This aspect needs to be rectified to achieve development goals. As Lee Kuan Yew, former Prime Minister of Singapore said that discipline should be established first and then development and democracy would follow. This statement clearly shows that establishing discipline through proper law enforcement is a 'pre-requisite' for sustainable development and the democratic process. The relevant public officers, therefore should master the laws pertaining to their subject areas and ensure that law enforcement is fair and unbiased.

### Leaders in Development

Public Officers have a vital role to play in the process of the country's development. They should understand the directions of development trends including the main elements of economic, social and environmental development. Public officers should have the knowledge, capacity and experience in the development process, as they have been involved in the development process. They should therefore, give leadership to development in the country. They should identify the problems and issues, plan, implement, monitor and evaluate development programmes and projects. In this regard, public officers must clearly understand the policies of the government in power and adjust their development related actions accordingly. Public officers should also clearly understand the global economic and political trends, identify the country's needs and use the resources in an optimum manner to achieve the development goals. They have to play a lead role in the process of development with a view to help improve the quality of life of the people.

It is important for public officers to clearly understand the basic principles and strategies of sustainable development. They are responsible for formulating the national policies, coordinating various sectors including agriculture, industry, transport etc. and ensuring the proper implementation of such policies in a cohesive and consistent manner. They should provide leadership in national development, help the private sector and advise political leaders to make suitable decisions.

### Policy Analysts

It is important that all senior level public officers be conversant with the process of public policy formation. This is a function, which requires specific skills related to multi-disciplinary policy arenas.

Some of the multi major disciplines are, Energy and Environment, Foreign Affairs, Health, Criminal Justice, Social Welfare, Science & Technology, Education, Urban development, Transportation, Employment & Labour, Economic & Social Development & Communications.

As Professor William Dunn says, Policy analysis is the activity of creating knowledge of policy-making processes policy analysts investigate the causes, consequences and performance of public policies and programs. Such knowledge remains incomplete, however, unless it is made available to policymakers and the public they are obligated to serve. Problems solving is a key element of the policy analysis methodology. For-

Hospitals		Schools	
Type	Number	Type	Number
Teaching Hospitals	16	1 AB (Schools with Advanced Level Science)	584
Provincial Hospitals	6	1 C (Schools with Advanced Level Commerce & Arts)	1,844
Base Hospitals	36	Year One to Eleven	4,030
District Hospitals	159	Year One to Eight	3,429
Peripheral Hospitals	103	National Schools	317
Rural Hospitals	158		
Prison Hospitals	8		
Special Groups	5		
Central Dispensary & Maternity Homes	75		
Central Dispensaries	389		
Estate Hospitals	9		
<b>Total</b>	<b>964</b>	<b>Total</b>	<b>10,204</b>

Source: Ministry of Health

Source: Ministry of Education



mulating problems as part of a search for solution is also an important part of the methodology. Policy analysis also helps to improve efficiency of choices among alternative policies.

As William Dunn points out policy analysis provides information that is useful in answering five questions. What is the nature of the problem? What present and past policies have been established to address the problem, and what are their outcomes? How valuable are these outcomes in solving the problem? What policy alternatives are available to address the problem, and what are their likely future outcomes? What alternatives should be acted on to solve the problem? Answers to these questions yield information about policy problems, policy futures, policy actions, policy outcomes, and policy performance.

(William N. Dunn – 1994)

It is essential to expose senior level public officers to short term and long term training on policy analysis. If they acquire the knowledge and skills in this field they will be in a better position to plan work and guide their agencies and the officers under them. Political executives also will be benefited from such analyses of public policies when deciding national, policy.

### Practitioner of Good Governance

It is an accepted fact that all public officers should be efficient and effective in performing their functions. Today, an additional quality is required of public officers, namely the practice of the principles of good governance. Many think that the term governance refers only to the functions of the state sector.

The term "governance" refers to the administrative mechanism available to manage the economic, social and political affairs of a country. There are elected as well as appointed members of the government and public officers are considered as the appointed members of the government. "Governance includes the state, but transcends it by taking in the private sector and civil society." (UNDP) This clearly spells out that there are two other key players (Private Sector and Civil Society) in addition to the state sector in the practice of governance. If public officers need to be good practitioners of governance, they must first of all recognize the private sector and civil society as equal partners. They must also be conversant about the basic principles of governance and try to put them into practice. The main principles of governance are characterized by participation, rule of law, transparency, responsiveness, consensus orientation, equity, effectiveness and efficiency, accountability and strategic vision.

(UNDP – 2002)

The scope of this article does not provide opportunity to go into details of good governance. However, it is important that all public officers be conversant in good "governance" and its principles and practice. In line with the meaning of the term governance, the public officers should build partnerships with the private sector and civil society organizations. The primary role of the public service is to promote, encourage and build such partnerships with a view to develop the other two players as equal partners.

### Organizational Managers

All public officers work in organizations. It may be a ministry, department, statutory body, provincial agency, district or divisional level agency. All these agencies can be called organizations because they have the three characteristics of an organization such as goals, resources (Human, financial, material) and systems/procedures to work. Public Officers may work at senior, middle or junior levels in an organization. Some may be the heads of organizations, other may be members at other levels. They must ensure that resources are utilized in an optimum manner according to laid down systems to achieve goals of the organization.

They must direct and lead the organizations as teams to provide services efficiently and effectively. It is important to motivate and lead human resources while practicing the rules and guidelines in managing financial resources.

### How to play the Roles Effectively ?

Although, some key roles of the public service have been specifically identified in this article, there may be other roles, which can be added to the list. The important feature is that public officers are expected to play multiple roles depending on the situation. Sometimes, a public officer can be a facilitator in promoting the private sector for development. In addition the same public officer may have to play other roles of protector of the environment, provider of quality services or act as a law enforcer.

### Training

As described in early sections, the multiple roles that public officers are expected to play require 'multiple' qualities and skills to make them effective. They need to acquire relevant knowledge and skills and improve their capacities in a plethora of subject areas. They should be conversant with policy analysis, management principles and practice, monitoring and evaluation, planning, communication, law and other related general subject areas. In addition, they should acquire basic knowledge in various specific subjects assigned to them such as agriculture, environment, industrial development, transport, education, infrastructure development etc. It is therefore, necessary that or-

ganized training opportunities be extensively provided for public officers. These training programmes should be specific to different seniority levels and the responsibilities entrusted the officers. Some public officers believe that they do not need any organized training because they have the required knowledge and skills to perform the job assigned to them. Many senior level public officers do not possess the skills required for policy level jobs which is a specialized subject area requiring special skills. Same principle can be applied to other subject areas as well.

The training required by different grades of public officers should be planned carefully and be offered on a regular and mandatory basis. The officers should be asked to follow the appropriate training programme, before they are promoted to the next grade. In South Korea the public officers who belong to a unified service are required complete the designated training programme relevant to their grade before promotion.

In England, the training of public officers was given priority both to provide them with relevant skills and to act as a vehicle for transmitting the new managerialist culture. Different types of training programmes have been designed for three key levels of the civil service "Top Management Programme, involving managers from both the public and private sectors, was introduced as a prerequisite for all grade three civil servants involved in strategic management. A Senior Management Development Programme was launched for principal officers and above and a Management Development Programme for junior staff was designed to identify managerial talent and introduce a management succession programme."

The main government training institutions such as Sri Lanka Institute of Development Administration (SLIDA) and National Institute of Business Management (NIBM) need to be strengthened to undertake this important responsibility. In addition, selected Universities and other relevant institutions may be invited to plan and offer short term and long-term study programmes for identified groups of public officers. Training should be properly linked to the career development of public officers and completion of the required training should be made mandatory.

### Job Specific Skills

It is observed that many public officers apply the practices familiar to them irrespective of the position they hold. A public officer may have obtained his or her academic qualifications in a specific subject area such as engineering, economics, social sciences, natural sciences or humanities. Some officers attempt to use their subject specific knowledge and skills on the



job. Although, such specific subject knowledge may be useful, the officer requires many other skills. For example, when an officer is appointed as a Project Director of a foreign funded project, such officer needs to acquire knowledge and skills, in planning techniques, project management techniques, monitoring and evaluation techniques etc. Today, many foreign funded projects have not performed successfully because the officers concerned do not have the special skills.

A similar situation can be observed with regard to the experience of the officer. For example, if the officer has worked as a Divisional Secretary for long time, he/she tries to play very much the same role when the officer concerned is appointed to a senior position of a Ministry. The officers should understand the different roles that they are expected to perform according to the job.

### Is the Role Changing?

Some people talk about the changing role of the public service. But if trends have been carefully analyzed, one cannot see any significant change in the role of the public service over the last few decades. Some policy makers believe that the role of the public service will automatically change according to the global and socio-economic changes. It has been observed that some senior policy makers request the public officers to change their attitudes and adjust their roles according to the current development trends. However, the role of the public officer will not change automatically as expected. It is necessary to introduce and induce the changes through legal and administrative means. The public service of Malaysia has

been modernized and reformed through introducing necessary legal framework, directives of the chief executive (Prime Minister) and through various administrative guidelines, instructions and circulars issued by the Chief Secretary to the government and other relevant executives. Therefore, they believe that they would achieve the establishment of professional, high quality and meritorious public service in Malaysia.

### Conclusion

As was mentioned earlier, the public service is the main planning and implementing arm of the government. It is difficult to achieve the desired development without a 'strong' and quality public service. This is important for countries like Sri Lanka, since there is no other mechanism available for this purposes, Malaysia, Singapore and India are good examples where a strong public service has been able to contribute positively towards the economic development, political stability and sustainability of the administration.

It is essential to introduce necessary reforms in the public service with a view to achieving the development goals and objectives of the government. Since the public service is the key system available to transform government policies and programmes into action, the public service reforms should be considered as a priority. When market oriented economic reforms were introduced in England in 1980s, the government realized the need to reform its civil service "Businessmen were co-opted or recruited to introduce managerialist ideas and legitimize value for money and its concomitant emphasis on the 3 'E's, economy, efficiency and effectiveness. The political drive during 1990s turned to a fourth 'E', excellence aimed

at improving the quality and choice of public service. Subsequently the fifth 'E', entrepreneurship was introduced and the public sector was expected to emulate the market and the private sector to achieve the objectives.

In many countries, policy makers have realized the importance of establishing a quality public service to effectively carry out the programmes of the government.

It is therefore, unnecessary to stress the importance of introducing administrative reforms with a view to rapidly changing the culture, capacity and approach of the public service to achieve the development goals of the government. The present public service should be transformed into a more professional, high quality and competitive body to enable it to face the enormous challenges of the 21<sup>st</sup> Century.

### References

- Bhagwan Vishnoo and Bhushan Vidiya, Public Administration, S. Chand & Company Ltd. New Delhi, India, 1998.
- Commonwealth Secretariat, Managing Change: The Evolving Role of Top Public Servants, Commonwealth Secretariat, London, England, 1999.
- Farnham David and Horton Sylvia, Managing The New Public Services, Macmillan Press Ltd, UK, 1996.
- Ministry of Finance, Government of Sri Lanka, Budget Speech - 2003, Colombo 2002.
- Ministry of Policy Planning and Implementation, Government of Sri Lanka, The Future - Regaining, Sri Lanka, Colombo - 2002.
- Office of the Prime Minister, Government of Sri Lanka, Proposed Administrative Reforms Action Plan, Administrative Reforms Committee, Colombo, September 2002.
- Prime Minister's Department, Malaysia Incorporated Policy, Government of Malaysia, 1991.
- Resenbloom, David H, Public Administration, Ms.Graw Hill Companies Inc. 1998.
- United Nations Development programme, Human Development Report - 2001, New York, USA, 2001.
- William N Dunn, Public Policy Analysis, Prentice Hall, 1997.

### Contd. from page 8

would be the Prime Minister and his/her Secretariat. Therefore, the locus of direction of the Task Force should be the Prime Minister's Secretariat - with the head of the Task force reporting to the Secretary to the Prime Minister and through him/her to the Prime Minister.

The above caution implies that there should be no parallel institutional arrangements for administrative reform anywhere else in the political system. Whatever institutional arrangements as, for example, for the implementation of the agenda that may be required at sectoral levels should be subordinate to the central Task Force. The development of the reform options should be through processes that are transparent and inter-active and not in secret behind closed doors. Equally important is the adoption of a practice of publishing White Papers throughout the process. These are essential for seeking inputs from the citizenry; for obtaining reactions to tentative proposals in mid-stream, as well as for keeping the citizenry informed of the conclu-

sions and recommendations that are arrived at as regards reform measures.

It would be appropriate to place the final reform agenda before a Select Committee of the Parliament on Governance and Administrative Reform before they are placed before the Parliament for its final approval. It would be equally appropriate for the same Select Committee of the Parliament to act as the watchdog of the implementation of the reform agenda - through a system of periodic reviews.

In carrying out the future administrative reform exercise, it is important to recognise that there has been considerable study of the issues of administrative reforms in Sri Lanka. This is particularly so since 1986. These studies have been conducted under the aegis of the Government, of the corporate private sector, of multi-lateral as well as bi-lateral aid providers, of several civil society groups, and of research institutions. It would, thus, be a waste of time and resources to start the future reform process by undertaking another set of studies. The more practical and rational approach would

be to list the conclusions of the previous studies, examine their relevance to the situation as at the onset of the twenty-first century and, then, to undertake fresh studies only to fill any gaps.

### Conclusion

The preceding discussion has sought to focus both on the priority issues that need to be addressed by a future administrative reform agenda as well as the institutional arrangements that should underpin such an exercise. If previous experience is anything to go by, it is also essential that administrative reform should not be regarded as a discrete single episode. It is essential that it be regarded as a continuing process that responds to the changes in the challenges faced by governance as the Sri Lankan economy, its society and the polity evolve.

*It is the hope of this discussion that this would be the reality of the administrative reform that is to ensue.*



# Why State is Necessary for Economic Affairs?

When an economic system is being implemented the state should intervene in its affairs according to the manner in which the economic affairs accrue in the event of an economic system being inactive the government intervenes, in the economic affairs in diverse ways and at various levels, either through the central government, provincial councils or divisional councils. The state contributes in a number of ways in its intervention in economic affairs for this purpose.

1. By means of budgetary policy (taxes and expenses, fiscal policies)
2. Through the state's financial policy (interest, financial capital monopoly)
3. By various regulations
4. By state's lending policies
5. By direct state entrepreneurs life

By means of the state's intervention in the economic affairs, it impinges on the consumers' consumer pattern, producer's production pattern, savings investments, services supplies of the unemployed, etc. Under this intervention a state has the ability to organize an economy from the level it has existed, to the required form. Hence it becomes clear that the role of the state occupies an important place in the economy.

The economic affairs carried on by a state differ from the economic affairs of the private sector in several ways.

1. The operation of economic activities of the state at macro level (macro level)
2. Provision of social welfare
3. Spending of funds obtained through the economic system itself.
4. The enforcement of laws and regulations and acts in the implementation in other words whilst the state can enact laws, the private sector has to operate in accordance with the laws and regulations of the government
5. The resulting greater degree of inefficiency than in the private institutions, caused by the prolonged continuation of state institutions at a loss.

A state is important in economic affairs to the extent of the importance of the state's activities in that economic system. The operation of the

state sector in a country's economic system can be identified by number of indices.

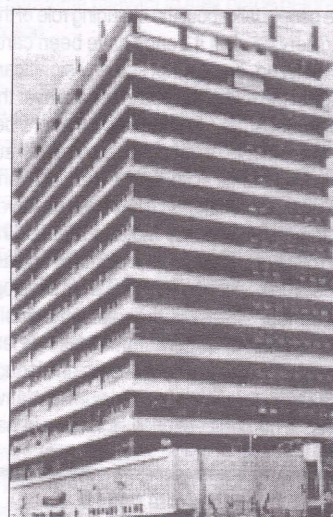
1. As state income and state expenditure expressed as a percentage of gross national products.
2. On the basis of state contribution as a percentage of the total capital formation
3. On the basis of the percentage of the burden of the state out of total consumption.
4. On the basis of the proportion of state's employment of services act of the total employment of services.

In these percentages take a high value, the state sector bears a major share in such an economy, according to the way the economic policies of Sri Lanka had been implemented in the decade following '70 the state had taken a high percentage in economic activities. But with the onset of the liberal economic policies after 1978 the present

**K.M.R. Karunarathna \***

private sector bears a high percentage contribution in regard to economic activities according to the taxonomies of economics systems state intervention who has been given diverse interpretations. Under this the state's intervention in a socialist economy should exist at a high level, in a capitalist economy at a lesser level and its intervention in a mixed economy at a general level. However the generally held opinion is that a minimum intervention of the state is necessary. In a state's involvement in a certain economy it does not operate at a uniform level, in the same way at all times. On economic system differs from time to time. In the face of these changes the operation of the state in that economy varies from time to time. At present in most countries of the world the state intervenes in the economy in alignment with the market system. However in a state's involvement the economy, welfare becomes a main factor but whether it is solely the accompaniment of welfare is a practical problem. Due to prevalent state of civil war in Sri Lanka, welfare expenditure has been reduced because of employment defense taxes, national insurance tax and obtaining of loans. Hence in the eighties, minimization welfare expenditure in Sri Lanka can be seen as a result of diverting the expenditure to other sectors.

The way how state intervention should occur in a certain economy is a matter subjected to various problems. The neo-classical think that state intervention should be minimal. The state should allow operation of free forces without its obstruction economic activities. That is to say that distribution of resources could be made efficient without state intervention. Under this hypothesis, when it is assumed that resources will be distributed at maximum efficiency under competitive conditions, though the fact of state intervention holds true, it would not be



Instead of daily ran banner headlines against State Banks, People's Bank still stand as a giant in the industry thanks to the strong customer loyalty it has built over the years as a state institution.

successful, if the distribution of resources does not occur at an efficient level. That means that while it is not possible to view practically the market situation under consideration, the hypotheses do not always hold true and at the same time of these activities do not occur efficiently, the fact of the state's minimal participation becomes problematic.

Regarding this, the economist, John Maynard Keynes, has put another opinion forward. That is there should be a considerable extent of state intervention in an economy or in other words for the organization of the market system there should be fiscal policy and state policy.

But these two opinions are defined from time to

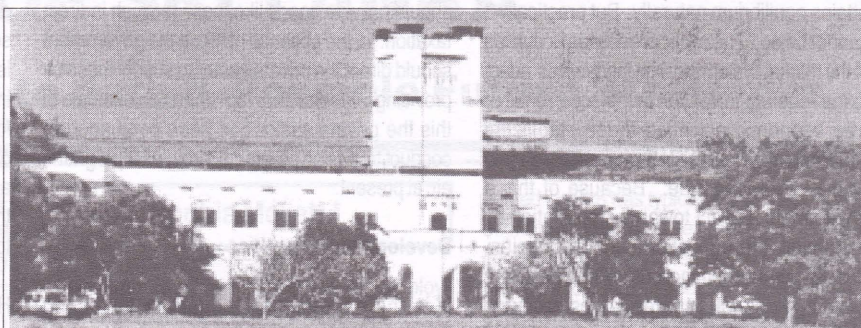
\* Lecturer, Department of Economics, University of Peradeniya.



time while being subjected to controversy. Although it is said that the state should intervene because the market system is efficient, when we view the present situation, it can be seen that instead of an efficient distribution of resources, there is an inefficient distribution owing to state intervention. A large number of state institutions have been rendered inefficient in the implementation of the economic system under planning, through state intervention in Sri Lanka, because of increase in the burden of loan, decline in the margin of profit, rise of unemployment, inefficient distribution of resources and wastage of resources. Therefore in directing its own economic activities should conduct its own affairs, maintaining welfare activities at a high level in a more efficient manner at the implementation level.

While there is no proper flow of information taking place sufficiency also can vary. There is practically no sufficient flow of information rurally the flow of information in urban areas occurs to a certain

Therefore when factor ownership is irregularly distributed the inequality of distribution goes up. The obtaining of production factors occurs in several ways. The government should be



Private Universities are common feature in higher education in many countries. In Sri Lanka, University education still perceived as a state responsibility.

The manner of intervention in economic activities should be done with great responsibility since a state spends its money from the taxes and revenue obtained from the people. It is essential that a state should maintain its laws and regulations according to the problems existing in its economy. That means a state should minimize its intervention to necessity.

### The necessity for a State to intervene in the economy

A state intervenes in economic affairs in diverse ways according to the special features and the timely changes obtaining in the different economies. This may be discussed a long several objectives and purposes.

1. For the efficient distribution of resources.
2. For an equitable distribution of resources.
3. For economic stabilization, that is to minimize the fluctuations existing in the community.
4. For economic growth
5. For supply of public goods.

In the fulfillment of each of these purposes the implement in individual economies becomes divers. That means, after there necessities having been identified, even if these processes for fulfillment of objectives are implemented, it is important to study the manner of their practical implementation.

### Condition of efficiency

It is not easy to see logically the consumer operating within a perfect competitive economy. Under a perfect competitive economy every level of the market operates well. Information flows well to every consumer. But in the real world everybody is not a logical consumer.

extent. The decisions in their activities taken by the consumers as well as the producers who lack correct information are not correct. The purchase of goods at higher prices by the customer due to ignorance of the customer and excessive consumption can take place, while the profits obtained by the producer through the production factors may not be maximum. The state must educate the people by means of rules and regulations to correct the wrong decisions taken by the consumer on the basis of misleading advertisements. For instance the state can follow courses of action like "Pesticides are dangerous". Use with caution "Smoking is harmful to health".

### Distributors' Functions

Alongside with how equitable the resources of a country are distributed another fact that should be focussed on is how equitably the resources of an economy are distributed within the economy. The manners in which income wealth and other resources are distributed with an economy are diverse. This may be considered under geographical regional rural and urban distribution, its distribution among various classes or various income levels and also various sectors namely estate rural and urban. The distribution of these factors, ownership in other words income property as well as all other resources having an earning capacity is considered. Besides things like property all the levels at which income can be obtained such as educational level, health level and the potential for increasing production are considered. It cannot be said that this will occur in a market system in a normal way. The income from certain factors will not be obtained equal to the marginal production value but it cannot be said that this will happen on all occasions. To a great extent the capital is obtained in excess and labours in obtained less.

encouraged to justify the prolonged occurrence of inadequate supply of labour by means of laws and regulations. For the purpose of correcting the unequal distribution, revenue should be obtained from high-income groups and distributed among the lower classes under the expenditure policy (transfer of relief) (subsidies). In addition to this the government can implement its income and expenditure policies in an indirect manner while it is possible to impose.

Indirectly a greater burden of taxes of higher income groups by levying higher taxes on imported luxury goods, unequal distribution can be reduced by imposing of limitation on property ownership and land policy. The fundamental cause of poverty faced by the modern world is the unequal distribution of income levels. This situation is commonly true both in developed countries and developing countries. As an example, when we consider on the basis of urban and rural a higher distribution of goods to schools, hospitals employment opportunities is obtained in the urban sector. The government can intervene indirectly under the circumstances by diverting the private sector to produce infrastructure facilities to regional areas.

It is difficult to implement conditions of equity and efficiency concurrently. When the condition of equity is fulfilled the condition of efficiency collapses. Therefore the government should implement its policies, having considered the social point of view and also both the condition of equity and efficiency.

### Stabilizing Objectives

The government should intervene to minimize the fluctuations, in economic activities like levels of prices; national income unemployment



balance of a government can do this by fiscal and financial policies.

Any economy in the world can have booms and recessions. Under the market system this attains equilibrium naturally. But practically it cannot be so. The cyclic processes occurring in the market system through themselves adapt to the required form. But in the occurrence of free economic activities these stabilizing conditions may not arise in the necessary degree or may take long time. Because of this a government can act towards stabilization by balancing through expansionist policies. Subsidence and contractions policies (taxation) interest policies, rules and regulations, balancing and finance supply policies. The government implements its policies under its stabilizing policies in the direction counter to that towards which the economy is tending. However by the present time weaknesses can be seen in the conventional policies (expansionist and constructionist policies). While the responses of the government for the constructionist policies become less, there is more response for expansionist policies. In the same manner along with unemployment inflation also rises. There are no definite results from the economic techniques followed in this regard like bank loans. In the implementations of these policies in the economics there economics cannot organize their policies individually. Because of faulty flow of information due to external influence, especially for small economics, it is difficult to manage their economics properly. By the present the problems whether the government can manage its own economy as it requires and also the validity of the policies exist. Hence the validity of these policies vary from place to place. In our country an important place is given to our fiscal policies. The cause is that both our capital and financial market are small. We have mentioned before that through Keynes fiscal policy a big role can be played in the economy. But owing to the present contractions it cannot be implemented. That means although the intervention of a government is necessary, in spite of certain limitations it is necessary for a government to manage its economy.

### For provision of Common Goods

The private sector does not offer itself to provide common goods. It does not supply the common goods due to the difficulties of deciding the quantity to be supplied and the inability to price

them. Their production factor costs also rise. Their special characteristic is that they are consumed collectively and also they cannot be eliminated from consumption. As common goods are different in form from goods of ordinary form the government should provide goods like these through indirect taxation. In the absence of these the government should direct the private sector to supply these by providing infra-structure facilities as an example of this the private sector has been persuaded to conduct television programs, broadcast programs etc at present.

### Development objectives

It is the development countries that need government intervention through the development objective. This is broad in scope than economic development in that it encompasses a wide development in all sectors, social economic political, cultural development and so on. This is



Picketing launched by the teachers of the government schools.

a progress and development that takes place in a whole society. By means of this basic necessities, health, education alleviation of poverty as well as an increase in the national income results. It is difficult to think that a similar situation will occur through the private sector. Therefore the government should intervene to bring about development. The government should divert the available resources along different directions after planning. Directing an economy towards development through planning is subjected to controversy practically. There are many courses of action that a government can take to interest the private sector along development. Through government expenditure policy the private sector should be motivated apart from this, these policies can be implemented to manage the market. The devious of government policies towards development objectives vary in different economies. The government has to fulfil a large number of tasks until an economy reaches development level. According to the level of the

economy this rules differs from country to country, after the development perform an important role. However if this does not happen attention should be diverted to researched, diversion of resources to necessary sectors, diversion of the private sector to production and so on the burden of the role of governments of less development countries should be weighty in this respect. In the like manner ordering the foreign affairs to suit the economy for the purpose of transacting further with the external world and establishing foreign connections in a way that contributor to development in another tank to be along by the government.

However within the present globalization process a government cannot adjust its policies to suit its own economy as our policies have to be adopted to external activities it had not been possible to tend towards the necessary development. Especially the loans obtained under the loan policies have compelled us to act in a way to satisfy the lender rather than diverting us towards development objectives.

Hence, it is problematic whether development occurs practically even if the government implements its economic policies. Besides external influences it can be seen that political causes and selfish policies have made the operations of the governments of the world unpopular. Contemporarily it is said that the market system is more suitable but a hundred percent

operation of the market system is not suitable. Countries like Sri Lanka lack the background for doing so. There are instances where policies devoted for one objective are in conflict with other objectives as a result of this, each individual proposal is not implemented according to the form it is proposes. A government should operate according to the requirements of the economic system its special factors, claims and levels of development with proper planning of policies.

### References:

- 1 Jhon P. Due "Economic of the Public sector"
- 2 Otto Eskstein "The theory of public Finance"
- 3 Study Group series No1 "World Economic Summits: 'The Role in the Government of the World Economy' Hesinki: WIDER, 1989, 121 p
- 4 Bailly S.T.R. "Public Sector Economic Theory, Policy and Practice"
- 5 Brown C.V.& Jackson P.M. "Public Sector Economics"
- 6 Sandford C "The Economic of the Public Firm"



# PLANNING FOR DEVELOPMENT OF SRI LANKA

## Achievements to date & Possible Future Strategies

This study will concentrate on specifying a general framework for production planning and industrialisation in Sri Lanka. I will begin by looking into the country's economic progress since independence illustrating the peculiarity of its development. As we will see production expansion is one of the major objectives of economic planning and this analysis will be devoted to a discussion of achievements attained by the country to date. The purpose of this discussion is to establish a criterion that would enable us to see in what respect planning in Sri Lanka needs further development, and the extent to which this study may help in that direction. I will conclude with a possible approach to dealing with Sri Lanka's problem of 'catching-up' with the rest of the world.

The problem of economic policy formulation is to find a set of instruments that maximise the fulfilment of some chosen objectives subject to various constraints. The objectives chosen and the available policy instruments will depend on the political philosophy of the country as expressed by the government in power. Economic planning as defined in this essay is the process of selecting economic objectives and instruments of policy<sup>1</sup>. Therefore, planning differs from pure forecasting, since planning is based on the assumption that the future course of production and other economic variables may be influenced, and hence introduces the possibility of choosing the most desirable course. The basic rationale of planning follows from the belief that allowing the price mechanism to work without fetters is not a satisfactory way to achieve the desired economic objectives of a society. However, what constitutes the most desirable course depends very much on the aims set and means admitted<sup>2</sup>. It is difficult, if not impossible, to include simultaneously all the desired goals of society explicitly in plan formulation. Consequently, priorities must be used to rank the various objectives of development planning. Although the rate of economic growth may not be the principal goal, other objectives such as arresting rural poverty, attaining a fairer distribution of income and

Sophia Mckett \*

wealth, improving living standards, full-employment and creating a suitable environment for the social and cultural development of present and future generations, will depend on the realization of economic growth.

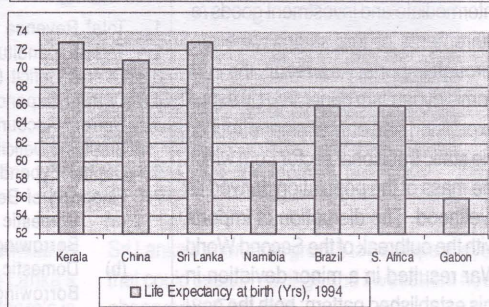
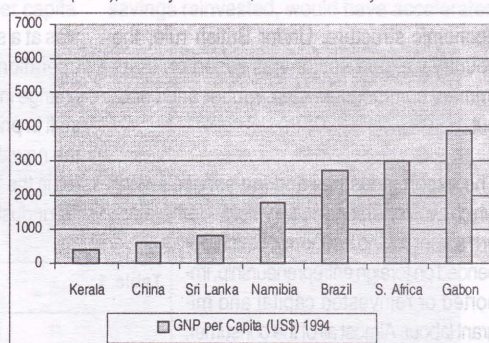
Rural poverty in Sri Lanka can be analysed with reference to development policies and associated changes to society observed since independence. As many an analyst has highlighted, Sri Lanka stands out here because of the relatively high quality of life, against a rather low income per capita. Life expectancy of 70+ years, an adult literacy rate of 90+ %, and an infant mortality rate of less than 20 per 1000. Professor Sen observed that Sri Lanka has a higher life expectancy than countries such as Brazil and South Africa which enjoy a much higher per capita income<sup>3</sup> (see FIGURE 1). Large investment in health, education and nutrition underpin these achievements, expenditures on which averaged close to 10% of GDP during the 1960s and 1970s. Food subsidies, largely untargeted, accounted for almost half this expenditure<sup>4</sup>.

In order to appreciate Sri Lanka's economic complexities fully it is essential to view her colonial past. The economic structure that independent Sri Lanka in-

herited in 1948 was typical of a 'dualistic export economy'. It was an 'export economy' because of the heavy orientation of production activities towards export production. On the other hand, the existence of a subsistence agricultural sector alongside the dynamic export sector, with very little spillover effects from the latter to the former, has infused 'dualism' into the

Fig. 1 GNP per Capita (US dollars) & Life Expectancy at Birth, 1994<sup>1)</sup>

Sources: Country data, 1994, World Bank World Development Report 1996, Kerala data Life Expectancy 1989-93, Sample Registration System cited in Govt. of India (1997), Department of Education, Women in India: a statistical profile; Domestic Product per capita; 1992-93; Govt. of India (1997), Ministry of Finance, Economic Survey 1996-97.



### Comparative GDP/GNP per Capita (US\$)

	1960 <sup>1</sup>	1997 <sup>2</sup>
Hong Kong	310	23200
Indonesia	91	1100
Malaysia	280	4530
Singapore	443 <sup>3</sup>	32810
S. Korea	152	10550
Taiwan	149	12797 <sup>4</sup>
Sri Lanka	152	800
Thailand	82	2740

Fig. 2

### Gross Domestic Savings / GDP

	Sri Lanka <sup>1</sup>	E. Asia <sup>2</sup>
1965 <sup>1</sup>	12%	17%
1990	17%	38%
1994 To 1998 <sup>4</sup>	16%	

### Gross Domestic Investment / GDP

	Sri Lanka <sup>1</sup>	E. Asia <sup>2</sup>
1965 <sup>1</sup>	15%	20%
1990	22%	36%
1994 To 1998 <sup>4</sup>	25%	

Fig. 3

\* Research Assistant, Institute of Policy Studies.



Figure 4 Sri Lanka			
Investment / GDP		Annual GDP Growth Rate	
1)	Present Situation	25%	5%*
2)	Desired Situation	40%	2%
3)	Investment Gap (2) - (1)	15%	
4)	Financed By: Eliminating budget Deficit	10%	
+			
5)	Foreign investment	5%	

\* Investment / Output ratio = 5:1

Figure 5 PER CAPITA GDP

Malaysia (1997) <sup>1)</sup>	US\$ 4,530
Sri Lanka (1997)	US\$ 800
Feasible optimum scenario Sri Lanka (≅ 2020)	US\$ 3,200 <sup>2)</sup>

- 1) GNP
- 2) Annual 8% GDP growth and  
1% Population growth implying  
7% per Capita GDP growth

economic structure. Under British rule, the country's export sector was based on three primary commodities - tea, rubber and coconut.

The export industries and the service sector which evolved around trade constituted the 'modern sector' of the economy, which depended on foreign entrepreneurship, imported or reinvested capital and migrant labour. Almost all of the consumer, intermediate and investment goods requirements of this sector were met through imports. As a result, the economic dynamism generated by export expansion had only a minor effect on the static traditional sector from which the mass of the population derived its livelihood. The disruption of imports with the outbreak of the Second World War resulted in a minor deviation in this established pattern; both the government and the private sector responded to the new situation by setting up factories to provide a wide range of consumer and intermediate goods<sup>5</sup>. However, the resumption of industrial imports after the end of the war put a sudden stop to this 'war generated industrial import substitution boom' without leaving any significant lasting effect on the structure of the classical export economy. In 1948 the contribution of export production to total GNP was 31.6%. Service industries contributed 43.3% while the local produce

was at a steady level and government budgetary operations were remarkably sound<sup>7</sup>. With the change in political leadership in 1956, a significant shift in priorities of economic policy took place. In the new development policy which was embodied in the Ten year plan 1958-68<sup>8</sup>, Import Substitution industrialisation through import substitution re-

ceived a much higher priority. The 'population explosion' of the post-war years in the face of the declining prosperity of the traditional export economy had brought to the forefront the urgency to diversify the economy by establishing a dynamic industrial sector to create sufficient employment opportunities. In the plan, 20% of the total Ten year investment budget was allocated to industrial development<sup>9</sup>. The period after 1957 witnessed the construction of government-owned steel, tyre, hardware, sugar, salt, cotton, brick, tile, chlorine and ilmenite factories. Starting with the 1957/58 budget, government policy tended to reflect a tendency toward using import duties as a tool for promoting import substitution by imposing protective tariffs for some infant industries and by lowering import duties on capital equipment and industrial raw materials.

Political independence in 1948 did not lead to drastic policy revisions aimed at significant changes in the colonial economic structure. The country's foreign exchange balances were in good shape, the purchasing power of export earnings

The year 1977 marks a turning point in the economic development of post-independence Sri Lanka. The change of government in that year resulted in a wide ranging policy reform which included liberalisation of foreign trade from the complicated system of direct controls; considerable relaxation of exchange controls with respect to many types of foreign transactions; restructuring import tariffs to a generally reduced level, while retaining high enough rates on a selective list to protect domestic production and for revenue purposes; mass-scale mobilisation of foreign finance, both from official and private

Table 1: Government Revenue and Expenditure

	1950	1960	1970	1977	1980	1985	1989
1. Total Revenue	691	1,403	2,736	6,686	14,068	39,009	56,761
2. Total Expenditure	863	1,821	3,672	8,761	28,840	57,788	81,850
3. Overall Deficit (1-2)	172	418	936	2,075	14,772	18,809	25,089
4. Current Expenditure	612	1,511	2,658	6,147	13,249	33,842	56,658
5. Current Account Surplus / Deficit (1-4)	79	-108	78	539	819	5,169	103
6. Capital Expenditure	258	471	812	2,263	12,352	23,632	25,836
7. Financing of Deficit							
(a) Domestic Bank Borrowing	74	241	454	-223	7,101	7,212	1,131
(b) Domestic non-bank Borrowing	-	174	282	1,579	1,607	3,651	13,875
(c) Foreign grants and Borrowing	-	29	220	1,211	6,135	10,416	12,333
(d) Cash balances	5	10	-25	-492	-71	-2,501	-2,250
8. Expansionary Impact of Fiscal Operations	79	251	427	-715	7,029	4,711	-1,190
9. (a) Overall Deficit as % of GDP (at market prices)	4.1	6.4	6.8	5.8	22.2	11.6	9.9
(b) Capital Expenditure as % of GDP (at market prices)	6.1	7.4	6.0	6.2	18.5	14.5	10.2
(c) Expansionary impact as % of GDP (at market prices)	1.8	3.8	3.2	-2.0	10.5	2.9	-0.4

Net of repayments  
Provisional

Source: Central Bank of Sri Lanka, *Annual Report* (various years)



Table 2

Change in Production Structure: GDP at Constant Factor Cost, 1960-1979 (annual averages)

GDP	1950-53	1954-56	1957-59	1960-62	1963-65	1966-68	1969-71	1972-74	1975-77	1978-79
1. GDP. Million Rs.	4464 (4.4)	5460 (3.2)	5796 (1.6)	6519 (4.5)	7304 (3.8)	8349 (5.7)	9644 (3.1)	10484 (3.6)	11593 (3.4)	12190 (5.2)
Percentage Share in GDP and Growth Rates										
2. Agriculture, forestry, Fishing and hunting	46.6 (2.3)	46.14 (3.1)	44.9 (1.7)	45.9 (5.3)	45.2 (1.2)	41.9 (4.8)	39.4 (0.5)	37.9 (3.1)	35.4 (1.2)	25.4 (3.8)
2.1 Export agriculture (including export processing)	30.1 (2.3)	28.9 (1.6)	27.8 (4.9)	26.9 (0.4)	26.0 (1.5)	23.2 (1.0)	19.9 (2.0)	18.2 (0.4)	15.8 (-1.9)	10.2 (0.7)
2.2 Domestic agriculture	13.6 (4.1)	15.0 (6.3)	13.5 (-1.8)	16.1 (10.6)	15.9 (0.3)	15.5 (10.9)	16.5 (4.1)	17.2 (6.5)	17.5 (4.5)	15.2 (5.2)
3 Industry	10.9 (3.4)	10.3 (6.1)	11.1 (-1.8)	10.1 (0.0)	10.5 (4.8)	12.2 (14.3)	15.3 (9.6)	15.9 (3.2)	16.6 (5.1)	19.2 (5.3)
3.1 Manufacturing (excluding export processing)	5.6 (-3.5)	5.3 (1.4)	5.4 (1.7)	5.1 (5.7)	6.1 (9.8)	7.2 (12.1)	8.5 (10.7)	8.8 (-1.4)	9.2 (7.1)	9.7 (6.3)
3.2 Construction	3.8 (15.5)	4.6 (11.6)	4.8 (-3.9)	4.2 (0.1)	3.7 (-1.8)	4.3 (20.1)	5.6 (6.6)	4.9 (0.4)	4.54 (-9.2)	4.7 (8.3)
4 Services	42.4 (7.1)	42.3 (2.9)	43.8 (2.5)	43.8 (4.0)	44.1 (6.5)	45.7 (4.5)	45.1 (3.4)	46.0 (4.3)	47.8 (4.7)	55.4 (7.6)

Sources: For 1950 to 1958: Saundaranayagam (1976; 1968 to 1977); CBC, Annual Report, various issues Supplemented by national account files of CBC

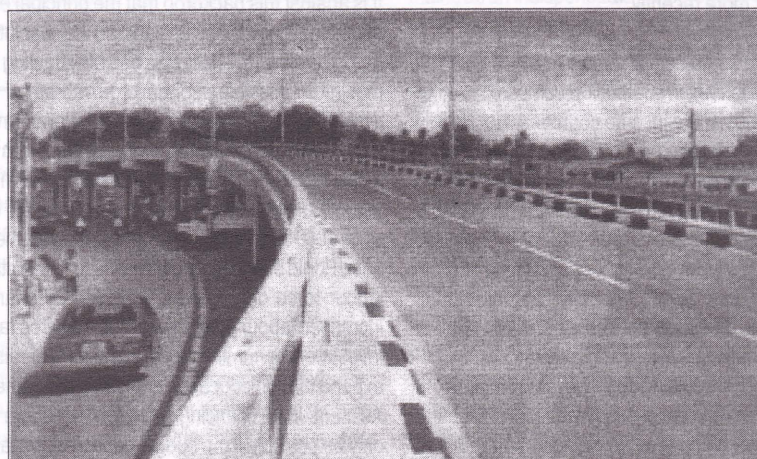
sources, to meet balance of payments pressure in a considerably liberated economy; devaluation of the rupee by about 47% and the adoption of from that point onwards a system of floating exchange rate; promotion of foreign investment particularly in export-oriented industries; and the implementation of a specific export promotion policy package under a newly-established Export Development Board<sup>10</sup>.

The structure and trade dependence of the post-independence economy is illustrated in Table 2 which summarises percentage composition and annual percentage growth rates of sectoral value added in order to highlight the changing pattern of domestic production of the Sri Lankan economy during the period, 1950 to 1979. The structural changes that have been taking place since the early 1960s are more profound compared with the earlier period. The share of the agricultural sector has continuously declined from 46% in 1960-63 to 25.4% in 1978-79. The share of industry which stood around 10% throughout the 1950s had increased to 17% by the late 1980s. The contribution percentage of the service sector has also indicated a continuous though relatively mild upward trend throughout the period. When the composition of the agricultural sector is compared over time, one is impressed by the increasing importance of the domestic agricultural sector.

For a while, many an economist believed that one of the shortcomings of Sri Lanka during the first few decades after independence, was to dedicate too much to social sectors relative to the unfulfilled demands for infrastructure investments. More recently, however, most agree that investing heavily in human capital is a prerequisite to overall economic growth. Along

these lines, what is truly disappointing in Sri Lanka is that progress in human development has failed to encourage economic growth. As several economists have emphasized, Sri Lanka's per capita

subsidies had been invested in plant and machinery, the resulting extra growth, compounded over a 40-year period and with the marginal savings reinvested, would have accelerated



Planning is very important for this type of (highway) vast development projects.

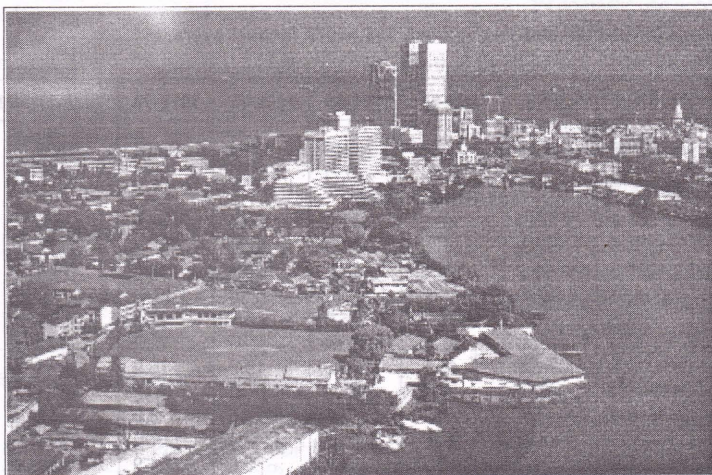
income in 1960 (around US\$150) was similar to Taiwan's and South Korea's. Today, Sri Lanka's GNP per capita is US\$ 800 while Singapore's is over US\$ 30,000 and South Korea's over US\$ 10,000 (see Figure 2). The slower growth of the Sri Lankan economy is in part due to Sri Lanka's lower savings and investment rates than East Asia's (see Figure 3).

Why did Sri Lanka fail to make progress in regard to savings and investment? Economist Lal Jayawardene believes that the country's shortfall is due amongst other things, to large food subsidies in contrast to the other social sector investments in health and education. In his 50<sup>th</sup> Independence Anniversary Speech in London, he speculates that if the near 5% of GDP invested in food

Sri Lanka's economic growth to perhaps a level that could sustain savings and investment now observed in East Asia.

Advanced human development and literacy in the face of low economic growth, creates huge challenges to Sri Lanka. As can easily be understood, low growth generates few productive job opportunities. As a consequence, governments have had to struggle with the population's expectation for well paid and satisfying employment and the resulting temptation to meet them with public sector jobs, many of which are of a "make-do" nature. Youth insurgency since 1971 has been one of the results since fulfilling society's needs has not always been possible. The above mentioned tendency for





Township development without proper planning causes immense problems to the economy and the society

governments to themselves create jobs is evident in education, where the teacher pupil ratio has reached a high of 22 pupils per teacher<sup>11</sup>. The combined effect of low growth and consequentially low budgetary revenues pushed up the budget deficits which averaged 14% of GDP over the period 1978 to 1994 and only slightly lower more recently.<sup>12</sup>

Sri Lanka invests a little over 3% of GDP on education which is rather low compared to other low and middle income countries. Her rapidly ageing population will require increases in health care with the government and the budget expected to foot good part of the bill. These factors will of course press the budget expenditures upwards even further. For Sri Lanka to grow faster, say, by 8% annually, it would surely need to drastically cut its budget deficit so as to raise national savings and investment substantially. This would no doubt be less of a pie in the sky if the current peace negotiations succeed as the conflict has so far cost some 5% of GDP. But the internal efforts by Sri Lanka may not be sufficient to raise growth to 8%. For an incremental capital output ratio of 5, - which is roughly the one observed recently in the country, - investment needed would be 40% of GDP. Even if the extra domestic savings arising from a possible elimination of a 10% budget deficit were applied to investments, raising the current investment rate of 25% to 35%, an extra 5% would be required to be mobilized from abroad in the form of foreign investment in Sri Lanka, both direct foreign investment and portfolio. This is much higher than current investment by foreigners in the country. Since an end to the civil conflict would substantially improve the investment climate, one can see that peace would have a double impact on growth through an increase in domestic savings and investments as well as in foreign investment. **Figure 4** below develops the numbers corresponding

to the above argument. An overall growth target of 8% implies, after allowing for population growth, a growth in income per capita of 7%<sup>13</sup>. This means that Sri Lanka's per capita income today of US\$ 800 cannot exceed US\$ 3200 in today's prices in 20 years time.

It is against this backdrop that the principal economic challenge facing Sri Lanka in the near future has to be viewed. The task is one of extracting the maximum possible economic growth out of the system before the labour force stops growing in 20 years' time at 14 million as compared with 12 million today<sup>14</sup>. This means making good in 20 years East Asia's average growth rate of 8% since 1960 and continuing to grow at that rate thereafter. Rapid economic growth in the face of a static labour force can only be achieved by sharply increased labour productivity. This requires rapid investment in human capital in the form of raised expenditure on education and skill development. As mentioned, financing such an expenditure will only be possible if the budget deficit is eliminated through reduced expenditure on defence and greater foreign investment, - both of which require peace. In sum, the country's economic welfare depends heavily on the success of peace negotiations, - the importance of which one cannot stress enough.

#### Bibliography

- Bruton, HJ, *The Political Economy of Poverty, Equity & Growth: Sri Lanka & Malaysia*, (Oxford Uni. Press: 1992)
- Balakrishnan, N, *Economic policies & trends in Sri Lanka*, Asian Survey, XX
- Central Bank of Sri Lanka, Statistics Department, *Sri Lanka Socio Economic Data 1998*
- Ceylon, Dept of Census & Statistics, *Statistical Abstract*, 1954.
- De Silva, KM, (ed.), *Sri Lanka: a Survey*, (Hurst & Company, London: 1977), p.xiv

- Dudley Seers et al., *Matching Employment Opportunities & Expectations: A Programme of Action for Ceylon*, ILO (Geneva: 1971), p.87
- Dept. of National Planning (data compiled by Dr.P.Alailima for it)
- IMF Institute, *Financial Programming & Policy - The case of Sri Lanka*, (IMF, Washington: 1996)
- Institute of Policy Studies (IPS) *Sri Lanka - State of the Economy*, (1999)
- Karunaratne, ND, *Techo-Economic Survey of Industrial Potential in Sri Lanka*, (Industrial Development Board, Colombo: 1973)
- Tinbergen, J, *Economic Policy Principles & Design*, (North Holland, Amsterdam: 1966), p.78
- UN, Development Programming Series, No.3, *Problems of Long Term Economic Projections*, (New York: 1972)
- UNDP, *Human Development Report, 1999*, (Oxford:1999)
- Quibria, MG, *Rural Poverty in Developing Asia*, (Asian Development Bank, Philippines: 1994)

#### Footnotes

- <sup>1</sup> UN, Development Programming Series, No.3, *Problems of Long Term Economic Projections*, (New York: 1972), p.109
- <sup>2</sup> Tinbergen, J, *Economic Policy Principles & Design*, (North Holland, Amsterdam: 1966), p.78
- <sup>3</sup> Amartya Sen, *Development as Freedom*, (Oxford: 1999), p.47
- <sup>4</sup> Based on data compiled by Dr.P.Alailima for Dept. of National Planning.
- <sup>5</sup> Karunaratne, ND, *Techo-Economic Survey of Industrial Potential in Sri Lanka*, (Industrial Development Board, Colombo: 1973)
- <sup>6</sup> All figures in this paragraph are from Ceylon, Dept of Census & Statistics, *Statistical Abstract*, 1954.
- <sup>7</sup> De Silva, KM, (ed.), *Sri Lanka: a Survey*, (Hurst & Company, London: 1977), p.xiv
- <sup>8</sup> Balakrishnan, N, *Economic policies & trends in Sri Lanka*, Asian Survey, XX, pp.891-902
- <sup>9</sup> *ibid*
- <sup>10</sup> *ibid*
- <sup>11</sup> *ibid*
- <sup>12</sup> IMF Institute, *Financial Programming & Policy - The case of Sri Lanka*, (IMF, Washington: 1996), p.104
- <sup>13</sup> *ibid*.
- <sup>14</sup> Bruton, HJ, *The Political Economy of Poverty, Equity & Growth: Sri Lanka & Malaysia*, (Oxford Uni. Press)



# PESTICIDE MANAGEMENT IN SRI LANKA

## Implementation Issues & Past Experience

### Agricultural productivity

Sri Lanka is an agricultural country with a population of around 19 million people and account for nearly 22 percent of the foreign exchange from the exports of agricultural commodities. Contribution to the GDP from agricultural sector has been declining in the last couple of decades from 40 percent in 1960's to 17 percent in 1999. Agricultural sector absorbed 34 percent of the labour force in 1994. As a result of the decrease in agricultural production during the last decade the overall agricultural production index recorded as 118 in 1991 against 132 in 1986. On the other hand, spending on food imports have increased from Rs.16 million in 1991 to Rs.26 million in 1995. Compared with countries of South Asia, Sri Lanka has a high population density of 0.35 ha per person. Out of total land area of 6.5 million ha only about 5.5 million ha are arable. Thus, it is vital that the production efficiency in agriculture sector be improved both in production and post harvest aspects.

Food security has been a major policy goal of successive governments. Seventy four percent increase in the extent of rice cultivated area has been achieved during the last five decades. The fact that agricultural commodities are freely imported at comparatively very low prices due to recent changes in the international and regional trade practices, local cultivation of seasonal crops are now fast becoming uneconomical. Thus farmers are compelled to switch over to low input cost, increased yield and reduced production cost options, where possible. Average labour cost component of the most extensively grown seasonal crop of the country, paddy, is still around 50 percent of the inputs.

Rapid increase in labour cost in the recent past left chemical alternatives as significantly low cost option available especially for weed control. As a result, paddy farmers are now almost totally dependent upon chemical weed control. In the case

of vegetables, there is an increasingly high market price for pest and disease free "extra clean" produces. This trend is further aggravated by the high prevalence of pest attacks in some improved high yielding varieties and high cost involved with other advanced technological options. In order to cater to the demand for increased productivity, farmers depend excessively on pesticides for crop protection.

### Pesticide import and consumption

Pesticides are considered as the most toxic group of chemicals, meant to use, in most often in the local context, by a vast majority of the population

#### Sumith Jayakody \*

who are virtually unskilled. The group of chemicals consists of products ranging from household items to extremely hazardous products used only by professional applicators such as fumigators. Because of its versatile nature of users, pesticides naturally become the most hazardous products in common use.

Pesticides are imported into the country either as ready-to-use products (formulations in retail packs or in bulk for re-packing) or as technical material for local formulation. By 2000 the CIF value of the country's pesticide requirement was 1349.5 million rupees and of this 270.6 million rupees was allocated for the import of technical material for local formulation. Of this 1078.9 million rupees

was allowed for direct import of formulated products (Table-1).

At present, approximately 50 insecticide active ingredients, 30 fungicide active ingredients and 25 weedicide active ingredients are registered for marketing and use in Sri Lanka. Total annual pesticide consumption was estimated as 1696 metric tonnes of active ingredients at a cost of 4628 million rupees in 2000.

### Pesticide use patterns

As speaks above, the use of pesticides remains as an indispensable crop protection tool in Sri Lanka. According to WHO/UNEP data for the year 1992, latest available, of average load of pesticides applied on the environment, Sri Lanka ranks above Africa and Latin America with 1,013 g/ha that of Latin America. The Sri Lankan situation is comparable with the highly industrialised nations such as USA (1,490 g/ha.) and Europe (1,870 g/ha). However, those developed countries possess all latest advancements in technologies along with infra-structural and economic support properly in place to ensure the safe use and avoid any adverse environmental and human health impacts of pesticides. As a result of extensive and indiscriminate use of pesticides, numerous problems have surfaced. A lot has been written about pesticide mal-practices in Sri Lanka and the consequent number of poisoning cases reported by the National Poison Information Centre. Although a majority is suicidal nature, nevertheless, the message has come across that there is a need to safeguard the health of the applicators, and this has indeed become one of the greatest concerns of the Registration Authority. Economic constraints prevent facilitation of highly sophisticated technology required for close and careful monitoring of the field situation, investigation of root, causes of problems, making the required remedial measures and proper record keeping in most human

**Table 1**  
**Foreign exchange allocated for import of pesticides-2000**

Item	Volume in Metric Tonnes	Value in Rupees
Insecticides	1294.5	431,021,080
Weedicides	2138.3	710,543,760
Fungicides	570.9	161,545,600
Others (acaricides, rodenticides, fumigants, molluscicides, insect repellents, etc.)	124.3	46,442,840
<b>Total</b>	<b>4128.0</b>	<b>1,349,553,280</b>

Source: Pesticide Statistics for the Year 2000, Office of the Registrar of Pesticides

\* Research Officer, Office of the Registrar of Pesticides, Department of Agriculture, Peradeniya



# ECONOMIC REVIEW 1983 January



An earlier issue of *Economic Review* (Sept. 1983) carried a comprehensive Special Report on pesticides in order to highlight the emerging issues in this field and to sensitise the policy makers on the urgent need for stringent regulatory mechanisms.

health and environment related incidences. Therefore, it is feared that unnoticed and unknown ill effects would be much higher than it appears.

## Pesticide legislation

The Control of Pesticide Act No.33 of 1980 clearly identifies the framework for pesticide regulation in Sri Lanka. It makes provisions to regulate the import, formulation, packing, labeling, storage, transport, sale and use of pesticides. Thus it is evident that the law applies to all pesticides, whether the end use is in the fields of Agriculture or Public Health, or whether the products are to be used in the Household or in Industry.

In Sri Lanka, the responsibility for administering pesticide legislation is vested in the Department of Agriculture. The Registrar of Pesticides is the Licensing Authority, who is advised on policy and technical matters by the Pesticide Technical and Advisory Committee (PeTAC). The Registrar of Pesticides is further assisted in an informal manner with expertise available in the Department of Agriculture and other government institutions.

The basis of regulation is the compulsory registration of all pesticide material. The objective of registration is:

- To provide an efficient process for the systematic review and approval of pesticide products prior to import, formulation and marketing.

- (b) To ensure that pesticide products that are allowed enter into the market is supported by data that demonstrates safety and efficacy.

- (c) To screen products that may cause undue harm to humans and/or the environment.

- (d) To provide review and approve of individual pesticide labels and advertisements.

- (e) To ensure an effective field enforcement mechanism for monitoring of proper distribution, storage, sale and use.

It is a continuous review process usually carried out through an evaluation of data provided by the registrant and available through the international agencies and regulatory authorities whereby the Registration Authority approves

the sale and use of a pesticide. This process is a comprehensive evaluation of scientific data demonstrating that the product is effective for the purpose(s) intended and not unduly hazardous to humans, to animal health or to the environment. If every pesticide is registered the public will know

at a glance that the product on sale has satisfied the requirements of the law on its safety and effectiveness when used according to the directions on the label. This qualification "when used according to the directions on the label" is important as no regulatory agency can guarantee the safety against misuses.

## Pesticide use:

### Mal-practices, resistance and other environmental concerns

The estimations reveal that the total amount of released pesticide active ingredients into the environment is more or less stable since 1995 (Table 2). The continuous dependence on use of pesticides had brought about a great degree of awareness of the potential hazards posed by their indiscriminate use. A number of studies have shown pesticide mal-practices in Sri Lanka (Bandara, 1987; Jayatilake and Bandara, 1988, 1989; Sivayoganathan, 1990) and the consequent number of poisoning cases (Jeyaratnam *et al.*, 1982; Jeyaratnam *et al.*, 1987; Jeyaratnam, 1990; Senanayake and Karalliyadde, 1986), though the majority is suicidal in nature (Jeyaratnam *et al.*, 1982). Nevertheless the message had come across that there is a need to safeguard the health of the people and this has indeed become one of the gravest concerns of the Registration Authority.

**Table 2.**  
**Pesticide consumption in Sri Lanka 1995-2000**

Pesticide Category	Quantity of Active Ingredient (mt)					
	Year					
	1995	1996	1997	1998	1999	2000
<b>Insecticides</b>						
Chlorinated hydrocarbons	48.30*	50.67**	45.86**	37.16**	12.44**	-
Organophosphates	202.00	155.93	214.13	184.51	327.29	232.59
Carbamates	77.31	63.57	66.09	116.94	55.15	112.40
Pyrethroids	0.46	1.53	0.71	0.77	1.05	0.81
Botanical products and biologicals	-	-	-	0.0056	0.0079	0.0062
Insect growth regulators	0.27	0.27	0.83	2.76	2.23	2.55
Others	96.58	99.86	23.38	31.88	15.90	29.36
<b>Total Insecticides</b>	<b>424.92</b>	<b>371.83</b>	<b>351.00</b>	<b>374.03</b>	<b>414.07</b>	<b>377.72</b>
<b>Weedicides</b>						
Phenoxy hormone products	189.45	164.52	240.05	215.95	261.76	168.32
Triazines	0.82	0.54	0.56	0.31	0.45	0.56
Amides	443.72	402.20	391.88	341.48	313.23	302.72
Carbamates-Herbicides	-	-	21.49	-	13.79	-
Urea derivatives	31.62	20.10	36.70	23.06	20.82	23.03
Bipiridils	54.49	63.92	16.12	67.12	82.69	74.27
Others	95.13	121.36	157.94	186.05	239.95	313.54
<b>Total Weedicides</b>	<b>815.23</b>	<b>772.64</b>	<b>864.74</b>	<b>833.97</b>	<b>932.69</b>	<b>882.44</b>
<b>Fungicides</b>						
Inorganics	182.22	193.81	168.23	171.83	180.35	172.65
Dithiocarbamates	265.17	222.84	201.61	124.16	205.32	236.48
Benzimidazoles	4.92	3.84	5.54	5.85	8.20	7.82
Triazoles, Diazoles	-	-	1.53	0.27	2.70	1.57
Diazines, Morpholines	2.65	2.50	2.50	2.85	2.35	2.20
Others	40.52	86.05	25.00	19.22	21.13	14.76
<b>Total Fungicides</b>	<b>495.48</b>	<b>509.49</b>	<b>404.41</b>	<b>324.18</b>	<b>420.05</b>	<b>435.48</b>

Note: Pesticide classification is based on the "List of Major Plant Protection Products", FAO Statistics Division, Rome, Italy.

\* Values are based on the consumption of chlordane and endosulfan.

\*\* Values are based on the consumption of endosulfan only.



Surveys have revealed that vegetable cultivators are generally not aware of good agricultural practices and normally apply more than the recommended dose of pesticides (Jayatilake and Bandara, 1988). Excessive use of pesticides has been reported to have long term adverse effects on the immediate environment. A survey on impact of agriculture on ground water quality carried out at Kalpitiya peninsula where onion is cultivated extensively has revealed significant levels of carbofuran and very high levels of nitrate fertilizers in groundwater (BGS, CISIR, and Department of Agriculture, 1992). In addition, precautions like pre-harvest intervals are often not followed leading to potential residue problems. The risk of human health from pesticide residues is due to the pesticide residues in the edible part of crops and the daily consumption of crops. Although,

persistent products are screened out during registration and pre-harvest intervals are given accordingly for the recommended crops in the label, the common farmer practice of applying pesticides close to harvest and sometimes even after harvesting for protection during transport and marketing do raise concerns of high levels of residues in foods.

Aside from vegetables, indiscriminate use of pesticides in tea can cause residue problems and the consequent repercussions in international trade. Though Sri Lanka has been acclaimed as having the cleanest and best tea in the world with respect to pesticides, there were instances where pesticide residues have been detected in the exported consignments. A study conducted by M.P. de Silva and W. Thiemann in 1991 has found detectable levels of DDT, cyclodienes and lindane in tea

grown in up-country, though the use of these chemicals have been banned for almost two decades. It is speculated that the residues may have been originated at the cultivation stage of tea. Development of pest resistance has become a serious concern so much so that in anticipation of such, led the authorities to direct that use of new generation synthetic pyrethroids in particular be restricted.

### Sustainability of synthetic pyrethroids

The Pesticide Registration Authority had reviewed the subject of the use of synthetic pyrethroids for the control agricultural pests as early as 1985. Based on the reports (IRRI, 1976; Elliot *et al.*, 1978) following conclusions were made:

1. Continued use usually causing a high destruction of beneficial parasites and predators in the crop environment.
2. Presenting strong evidence of the progressive development of pesticide resistance of even a higher order than caused by organochlorine pesticides like DDT.
3. Some evidence of stimulating effects on reproductive features resulting in the resurgence of certain pest species like the Brown Plant Hopper (BPH) of rice.

All these features suggested that a very strict control should be exercised in the employment of insecticides in this group stating that it would be best to debar pyrethroid use in agricultural crops except for those pests (control of onion caterpillar in onions and pod/stem borer in brinjal) specifically recommended by the Department of Agriculture for which limited quota for each registrant was permitted totaling 11,700 liters per annum.

Considerable evidence that appeared over many years indicates that routine pesticide use can cause pest and vector outbreaks, upset of natural eco-system (due to their effects on non-target organisms), environmental pollution and harm on human health and the wildlife. Scattered incidences

**Table - 3**  
**List of banned pesticides in Sri Lanka**

Pesticide (CAS Registration Number)	Local Regulatory Decision
2,4,5-T(93-76-5) aldicarb(116-06-3) aldrin(309-00-2)	Banned in September 17, 1984 De-registered in 1990 All crop uses prohibited in August 01, 1986. No remaining uses allowed
arsenic (arsenites and arsenates)(7440-38-2) atrazine(1912-24-9)binapacryl(485-31-4) bromacil(314-40-9) captan(2425-06-1) chlordane(57-74-9) chlordimeform(6164-98-3)	Banned for Agricultural use in February 03, 1988. De-registered in 1994.No history of use. No chance of registration. No history of use. No chance of registration. Banned in January 26, 1989 Banned in January 01, 1996 Withdrawn from the market prior to 1980. No chance of registration.
chlorobenzilate(510-15-6) DDT(50-29-3)	No history of use. No chance of registration Banned for agricultural use in 1970. Phased out from vector control in 1976.
dichloropropane(542-75-6) dibromochloropropane (DBCP)(96-12-8) dieldrin(60-57-1)	Banned in January 01, 1990 No history of use. No chance of registration. Agricultural uses prohibited prior to 1980. No remaining uses allowed.
dinoseb / dinoseb salts(88-87-7) endosulfan(115-29-7)endrin(72-20-8) ethylenedibromide (EDB)(106-93-4) ethylenedichloride(107-06-2) ethyl parathion(56-38-2) ethylene oxide(75-21-8) fluoroacetamide(640-19-7) HCH (mixed isomers)(608-73-1) heptachlor(76-44-8) hexachlorobenzene (HCB)(118-74-1) leptophos(21609-90-5) lindane(58-89-9)	No history of use. No chance of registration. Banned in December 31, 1997. Prohibited prior to 1970. No history of use. No chance of registration. No history of use as a pesticide. No chance of registration. Banned in November 19, 1984 No history use. No chance of registration. No history of use. No chance of registration. Banned in October 09, 1987 Banned in January 27, 1988 No history of use. No chance of registration. Banned in January 27, 1988 All crop uses prohibited in August 01, 1986 except for treatment of coconut nurseries and emergency use for spotted locust control. No remaining uses allowed. Banned in June 30, 1987 from agricultural use. No remaining uses allowed.
mercury compounds mercuric chloride (7487-94-7) mercuric oxide (21908-53-2) mercury (7439-97-6) mercury chloride (7546-30-7) methamidophos(10265-92-6) maleic hydrazide(123-33-1) methyl parathion(298-00-0) mirex(2385-85-5) pentachlorophenol(87-86-5) phosphamidon(13171-21-6) quintozone (PCNB)(82-68-8) toxaphene (campechlor)(8001-35-2) thallium sulphate(7446-18-6)	Banned in January 01, 1995 No history of use. No chance of registration. Banned in November 19, 1984 No history of use. No chance of registration. Withdrawn from the market in 1994. All uses prohibited. Withdrawn from the market. All uses prohibited. Banned June 01, 1990 No history of use. No chance of registration. Withdrawn from the market prior to 1980. All uses prohibited.



are reported on deaths of peacocks and other kinds due to the consumption of rice grains that has been treated with insecticides. The misconception that chemical pesticides are the last resort in eliminating pests and vectors of diseases has led to routine and injudicious use of pesticides. With pesticides becoming less effective, users tend to increase the dose and the number of pesticide applications or by making or changing to un-recommended products. The pest problem is further aggravated by the build-up of resistant populations and the loss of natural enemies of the target pests formerly associated with agricultural cropland. A classic example is the change in status of the leafroller of rice which was the minor pest in the past (Nugaliyadde *et al.*, 2001) due to unscrupulous spraying of broad spectrum insecticides in rice fields. Quite often changes also occur in the pest composition of a crop. The increase in pesticide use leads to increased input costs, and decline in income with the results that uncontrolled pests and vectors impacting more on crops and on human and animal health. Thus, cultivation becomes uneconomical and may result in the farmers totally abandon it.

Current actions and policies are in effect to prevent the escalation of the many undesirable effects that have resulted from the dependency on pesticides. These have been primarily technical, educative, and legislative. The Department of Agriculture's policy over the last several decades has been to phase out reliance on pesticides for food production by adoption of integrated pest management technologies such as breeding for resistance, etc.

#### Specific approaches over risk reduction, safe use of pesticides

The registration scheme of Sri Lanka is tailored in a realistic approach to meet the country's needs with the limited resources of scientific expertise and support facilities available to the Registration Authority. No pesticide, even for experimental purposes can be imported without the approval of the Registrar of Pesticides. Depending on the need, an experimental clearance may be granted, subject to submission of chemical identity, toxicology and bio-efficacy data. The full data package is required for the assessment of safety of coded products (which are in the initial stage of development or pre-market development stage), i.e. to verify whether the benefits outweigh any potential hazards.

Easy accessibility, high lethality of substances and irresponsible handling of pesticides are some of the factors associated

with the high rates of pesticide related incidences. Suicides in Sri Lanka has been claimed to be one of the highest in the world (47 per 100,000 in 1995) over the past several years (Police Data on Suicides, 1998) and suicides account for more than 80% of the total pesticide poisoning in Sri Lanka. But, the accidents and occupational exposure are far less reported than anticipated when compared to the suicide statistics, mainly because of the differential administrative approaches in case of poisoning and comparatively low mortality rate in accidents. Senanayake *et al.* conducted a research on neurotoxic effect of organophosphorus insecticides, and observed secondary effects, which have not been recorded earlier. Current information from field studies (Jayathilake and Bandara, 1988; Jeyaratnam and Ponnambalam, 1980) revealed that the highest risk to humans arises from skin and respiratory exposure due to spray applicators not using protective clothing.

Based on past evidence, a modification of the registration procedure was practiced to expedite the registration of safer alternatives with the gradual phasing out of highly hazardous pesticides (*viz*; monocrotophos, methamidophos, etc.). A 25% import cut back based on the previous year import volume had been placed on the highly hazardous pesticides since 1990. But to contend with the pest problems faced by the farmers, alternates had to be processed expeditiously. Therefore, a policy decision was made to entertain registration applications without local bio-efficacy testing (which generally requires a minimum of two years) provided their use had been officially recommended in countries having similar cropping patterns and pest species. Further enforcement of the Act was practiced to make hazardous pesticides much less easily available for abuse. As a result, retailing them in the smaller pack sizes of 50 ml, which had been identified as a favorite "suicide pack" was prohibited.

With the advent of the Department of Agriculture policy for safer and judicious use of pesticides for crop protection, all pre-registration bio-efficacy test-

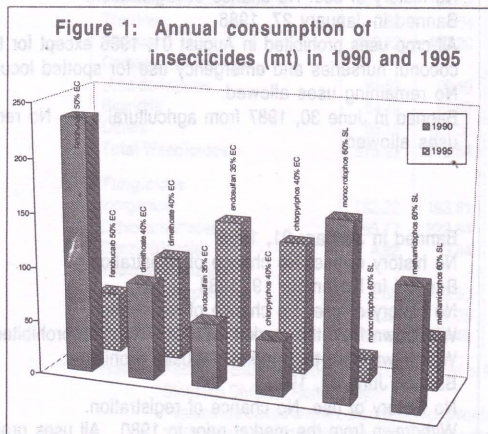
ing of pesticides were undertaken only for less hazardous, or reduced environmental burden, or target specific products cleared by the Registrar of Pesticides after an initial review of a limited set of data to evaluate for potential risks to human and the environment.

#### Basis for the assessment of acute risk to health

The World Health Organization (WHO) of the United Nations has recommended a hazard based classification scheme for pesticides (WHO, 1989). This classification is based primarily on the lethal dose administered orally or dermally, which cause 50% mortality in the rat since these determinations are standard procedures in toxicology. Thus, certain pesticides are classified as "Class I hazard categories" ( $LD_{50} \leq 200$ ) depending upon their scientifically determined "LD<sub>50</sub> Value"<sup>1</sup>

This basis for risk (acute risk to human health) assessment of pesticides is the WHO hazard classification which is based on oral and dermal toxicity of the technical material. Technical material could contain around 94-99% of active ingredient, depending on the manufacturing process. The balance that is 1-6% may contain water, solvents, and other impurities. Some impurities in technical grade material have a higher level of toxicity than that of the active ingredient. Thus, not only has the Registration Authority to be concerned with the toxicity of technical grade *per se* but also the toxic impurities which vary with the manufacturing process. In the case of 94% technical grade chlorpyrifos, toxic impurity sulfotep would be hazardous if it is above 0.3% which would result respective chlorpyrifos 40% Emulsifiable Concentrate (EC) formulations in the Class Ib (acute oral LD<sub>50</sub> is within 20-200 mg/kg in liquid base) categorization.

Toxic impurities occur in malathion, which is one of the widely used insecticides (175 metric tonnes of Malathion 50% Wettable Powder (WP) were used in 1996) in anti malarial activities. In a survey done in Pakistan (Baker, 1978) among 7500 field workers engaged in malaria control showed poisoning due to certain formulations of malathion having high levels of isomalathion as a result of production problems in the technical grade material and poor storage. In 1993, a consignment imported had unacceptable isomalathion levels. The detection was made as prior to release of the product. These issues have prompted the Registration Authority to institute strategies for quality assurance, and mandated "...as proof of quality, malathion products offered





should be registered nationally (in the country of origin) or internationally".

As cautioned by the WHO (1998) in para "... it should not be overlooked that in formulations of technical products, solvents or vehicles may present a greater hazard than the actual pesticide. **It is by far preferable that the final classification of a formulation should be based on toxicity data obtained on that formulation**". Pesticide formulations contain solvents, emulsifiers, coloring agents, etc., and some of them have been identified as enhancing the toxicity of the formulation. Therefore, to elucidate the toxicity of a formulation, risk evaluations should not be extrapolated on the basis of the percentage of technical grade material in the formulation alone but on the full toxicological information of the formulation.

After the policy decision to prohibit the import and use of Class Ib products locally, registrants are required to submit toxicity data on formulations. Two cases have been detected where false toxicity data have been submitted. These were formulations of 35% EC endosulfan and 20% EC carbosulfan from new sources after the patent held by the original manufacturer had lapsed. The supporting toxicity data submitted by the applicant in contradiction to data submitted by the original manufacturer and formulator identify similar formulations to be Class II products. As a means of confirming the data and credentials of the new source, the services of independent laboratories have been employed and revealed their falsity. Sources revealed that susceptibility to some insecticides (*i.e.* endosulfan) varied between male and female rats (normally by a factors of approximately 1:5), phenomenon that has been taken into account in the WHO Guidelines to Classification of Pesticides by Hazard (WHO, 1998). As an outcome of this experience, to reduce potential hazards to health to users, toxicity data on formulations with LD<sub>50</sub> less than 200 mg/kg are strictly cross-checked prior to registration.

The above speaks of how pesticide regulation has had a direct impact on human health by reducing potential hazards to workers in pesticide formulation and re-packing units and to pesticide applicators in the field.

#### Assessment of chronic health concerns

For registration purposes, the toxicological data required not only data from acute studies which provide information on the health hazards likely to arise soon after or as a result of short-term exposure to a pesticide but also data on sub-chronic studies to provide information on health

hazards that may arise from repeated exposure over a limited period of time and data on chronic studies which would indicate health effects following prolonged and repeated exposures. Due to resource constraints, for more complex short and long-term toxicological and environmental impact assessments, heavy reliance is placed on scientific conclusions drawn by developed countries.

The Pesticide Registration Authority had received and reviewed a number of studies on atrazine, most of that were required of the registrant as of supporting post-registration evaluations. Atrazine was one of the most widely used weedicides in sugarcane. Atrazine had been identified as a potential surface and groundwater contaminant due to its persistence and mobility in sub-soils. A local study conducted by Wettasinghe and Pieris (1998) confirmed that atrazine persisted more than 6 months in Reddish Brown Earth (RBE) soils, where most sugarcane cultivation were exist, providing definitive conclusions for surface and groundwater contamination. Long persistence led Registration Authority to de-register atrazine containing products in 1994.

The use of benomyl in Sri Lanka has been severely restricted in 2000 in the light of adverse health and environmental reports (WHO, 1994; EXTOXNET, 1998) and the restrictions placed on the product by some other countries (UNEP/IRPTC, 1996). It was a fact that the benomyl has been widely used for post-harvest treatments especially in fruit sector. Further, it was considered the fact that the majority of farmers and pesticide users generally do not abide by the recommendations and often overuse with little precautions, increasing the potential risk of high level of exposure to the applicators as well as the consumer of treated crops. Therefore, in spite of the fact that there had been no credential reports available on the local use pattern and food contamination, a regulatory decision was taken to severely restrict benomyl products in Sri Lanka, considering the worst-case scenario in the interest of the public and the environment.

Apart from the inherent toxicity of pesticidal substances, the hazard of the final market product is greatly dependent upon the impurities, which may arise as by-products during manufacturing as well as degradation products under poor storage. The still ongoing "Agent Orange" controversy centers on the use of dioxin (2,3,7,8-TCDD) contaminated weedicide 2,4,5-T during Vietnam War (from 1962 to 1971) and the resultant health problems linked to wartime exposure of the population to the contaminant (Colborn *et al.*, 1997).

Ethylene thiourea (ETU), an impurity in the most extensively used class of fungicides is a potent carcinogen. FAO (1980) has set a maximum al-

lowable impurity level of 0.5% for ETU in ethylenebisdithiocarbamates (EBDCs), *i.e.*, mancozeb, maneb, zineb. Under careful control manufacturing procedures the levels of these dangerous impurities can be maintained below the harmful levels. While long-term chronic toxicity data evaluations enable the identification of products that could cause carcinogenic, embryotoxic or teratogenic effects, information on toxic impurities identified as having chronic health concerns are currently being monitored by the Registration Authority.

Solvents too enhance toxicity of formulations. Isophorone (used as a solvent) in the formulations of propanil could be hazardous to handlers as it has been listed as a toxic inert causing neurotoxicological and other chronic effects of humans (US EPA, 1989). With a view to safeguarding factory workers engaged in re-packing and pesticide applications, a policy decision was made to de-register all propanil formulations containing over 40% isophorone in Sri Lanka. Certain coloring agents (*viz.*, Malachite Green), emulsifiers (*viz.*, dimethyl formamide) and stabilizers (*viz.*, propylene oxide) used in pesticide formulations have high toxicological concerns. In fact, the toxicity of solvents and other adjuvants in pesticide formulations offered for registration are also evaluated in the registration process and are periodically reviewed.

The regulatory input to contend with the above problems is to promote safer formulations and safer active ingredients. This applies both to replacement of the more hazardous Emulsifiable Concentrations (EC), Wettable Powders (WP) with comparatively less hazardous formulations such as Suspension Concentrations (SC), Water Dispersible Microgranules (WG), Capsule Suspensions (CS), etc., and promoting the registration of Insect Growth Regulators (IGRs) which target specific sites in insects which are not common to mammals. However, there is a growing concern among scientists that these insect growth regulating compounds disrupt normal molting processes, limb generation, and reproduction in arthropods (Cunningham, 1976; Touart and Rao, 1987; Forward and Costlow, 1978) too could have adverse impacts on ecologically important spiders, crustaceans, etc. Invertebrates are ubiquitous, represent over 95% of all animals, and are tremendously important ecologically and economically. Commercial fisheries of shrimp, crab, and lobsters and agriculturally important insect pollinators (*viz.*, bees) are few key species. Juvenile hormone mimics (*e.g.*, pyriproxyfen), chitin synthesis inhibitors (*e.g.*,

Contd. on Page 31



# Rethinking Rural Development

***"When we had all the answers, the questions changed"***

- Aymara Indians, Andean Region

**R**ural Development is a very much used in development jargon. However, there is much uncertainty regarding the concept as far as Sri Lankan experience in this field is concerned. This article tries to give some glimpse into those gray areas in an over-view of existing rural development initiatives in Sri Lanka. However, the article does not attempt to give any ready made solution for the problems confronting rural development but gives some insights which can open up new avenues, particularly at the policy making level.

## Why Rural Development?

In development theory and thus in the practice of developing countries, one came across, from time to time, several paradigms with different dimensions in terms of sectoral orientation and the methodology applied. Many of them focus on Rural Development or Agricultural Development because the main symptoms of underdevelopment are seen as inherent among the rural population of these countries. On the one hand, rural folk represent the majority of the population in these countries and on the other the living standards of rural people are considered to be inferior with compared with those of urban dwellers. It has been the consensus that Rural Development should be central to poverty reduction.

Furthermore, it was experienced that metro centres with sky-high towers and sophisticated infrastructure based on the service sectors that occupied substantial part of the economy are not sustainable unless the rural economy of a country is developed to the extent that it is compatible with the other areas of the economy. (Increased supply of food, some other raw materials and lower prices of food commodities from the rural sector and absorption of the redundant labour force by the urban sector.) The driving force of the economies of East Asian countries that have achieved a substantially high growth rate was in particular, the expansion of small and medium enterprises based in the rural sector which were able to mobilize domestic resources which otherwise were for a large part lying idle.

In the era of globalization poverty has become an international issue rather than the national issue of a country. It has now been recognized

that poverty is a trans-boundary phenomenon. More and more illegal migrant problems, AIDS and HIV are very common examples. There are enough reasons for the international community then, led by bilateral and multilateral donors, to increase their attention to rural development.

## Rethinking Rural Development

Then problem arises, why (or on what grounds) are rural areas designated as underdeveloped and why urban areas are considered to be developed? (Or why only rural development but not urban development?) The possible answer is that many

**Sirikumara Gunasinghe \***

of these issues arise when we compare the socio-economic conditions of the rural areas with those of urban areas particularly with the impression of western urban centers in our minds. Then does rural development mean converting a rural area into urban or can it be developed while the function assigned remaining? Can the problem be at least partly solved by shifting some rural people to urban centres? The problem is not so easy. Urban centres in many developing countries are already densely populated and living standards of low-income layers of urban population (most probably migrant or displaced from rural areas) are unlikely to be better than that of the rural poor. Opportunities to improve the living standards of the urban poor are also likely to be diminishing.

The inability or reluctance of rural people to shift (at least in the case if there any chance to do so permanently or temporarily) to urban areas in the event there is some possibility is explained by disturbance this will cause to their patterns of living<sup>1</sup>.

If the life in the rural areas is not up to conventional

standards (as perceived by the people), what inhibits the effort to improve the living standards of the people in the countryside?

There are various development models based on various theories, debates and research findings that have been trying to answer this question. Though it is very relevant to discuss the development of these thoughts over time, there will be no space to do that in this paper. The core of the problem and the very clear fact is likely to be widespread unemployment and underemployment in the rural sector. No attempt to upgrade the living standards of rural people will be successful unless this simple fact is recognized. Then whole problem of rural development is **where** and **how** we provide employment opportunities to this redundant labour force. One can ask the question whether supplying employment opportunities alone will resolve the problem.<sup>2</sup> Of course any solution for this should be not only economically feasible but also socially acceptable, as we have already pointed out.

Obviously the answer to the question of employment may lie outside the rural sector. Here we should emphasize that this is not contradictory with the hypothesis we made on the core problem of rural development. Because we still have to decide what portion of employment opportunities can be generated in the rural sector so that the remainder can be accommodated in the urban sector or, more radically the entire solution be put on the urban sector with the expense of converting whole rural areas to urban.

## What has been done so far?

Some of significant milestones of interest can be listed: Rural Industrialization, Green Revolution, Cooperative Movement, Land Reform, Change Agent Programme, Micro-Credit, Integrated Rural Development Approaches, Rural Non Farm Sector Development and Livelihood Approach. Some of those listed are theoretical concepts while others can be categorized as working strategies

\* Assistant Secretary, Sri Lanka Planning Service Board



*The term Rural Area has to be defined at the outset not only because this is ambiguous but also because it will allow us to make sense of a plethora of perceptions blended together in our minds. The criteria adopted for the designation of rural area depend on the objectives of interest. In the meantime, definitions vary widely across countries too. A few criteria widely used are; size of settlement, functional territory of municipalities and whether the area lies within or outside certain main cities. For many purposes, the first criterion is widely used with different cut off points.*

Conventional definition of a rural sector can be formulated as follows:

***"The space where human settlement and infrastructure occupy only small patches of the landscape (scattered sparsely over the landscape) most of which is dominated by fields and pastures, woods and forest, can be regarded as rural area."***

*However, the rural sector in developing Asia and Africa represents a complex of components such as smallholder and plantation agriculture and their sub categories; social groups/layers such as peasantry, farmers, fishermen and agricultural labourers; production relationships such as tenancy farmer-land owner, agricultural labourer-land owner, trader-producer etc.; social relationships such as kinship, patronage, political, caste and other networks together with the livelihood pattern of their own.*

or programmes. Some theoretical concepts listed may have working strategies behind them whilst some programme listed are not based on any strong theoretical background.

In the course of implementation almost all of the above developed bottlenecks and limitations of their own. The Green Revolution focused on increasing productivity in agriculture particularly the non-plantation agriculture sector, which at a point however, ceased to absorb more labour. Rural industries, including cottage industries and traditional handicrafts that cater mostly to the demand of rural people, have gradually been replaced by its modern or urban counterpart. Land reform in Sri Lanka was relegated to tenancy reforms that had no significant impact on the rural economic structure. Programmes such as Change Agent Programme that focused on self-reliance of the poor have gained success in some areas but these are likely to be very limited. Fungibility was one of the main problems in rural credit programmes. Government led integrated rural development programmes had limited capacity to generate employment opportunities. Generally, as it was seen all these initiatives executed missions assigned to them, but were, however, unable to bring about dynamic change in the rural sector so that income and living standards of the rural poor should be substantially improved.

### Common Shortcomings

A number of common shortcomings in conventional approaches to rural development, particularly in terms of restraining their success, can be noted:

(a) Generally they failed to recognize the dynamic behavior of the rural sector. Rather, they treated the rural sector as more or less static in terms of economic and social relationships.

As we see, different actors i.e. private sector, market forces, traders, bureaucrats, individuals, development activists, the government with its policies and programmes, donor-led initiatives, NGOs, cooperatives and a changing argo-climatic environment among other things, curtailed by the human agency of the people engaged in these activities are in action in this field. The outcome of these maneuvering along with the changes in the global political economic situation give a dynamic character to the rural sector in any country. Therefore, successful rural development strategies should be compatible with this changing socio-economic environment and the consequent changing attitudes of the people, and be continuously adjusted to the ever-changing environment.

(b) They mostly overlooked the vast diversity (semi-urban, rural isolated, estate, drought-prone, flood-prone, landless, tenants, etc.) of rural societies and households (Female-headed, labour-scarce, landless, etc.).

Capacities, capabilities and opportunities of different subgroups widely vary. Uniform strategies are not adequate to provide the necessary support for improving their livelihood across the board. For example, households situated in drought-prone or water scarce areas, have to spend a considerable time in fetching water, which otherwise could be utilized in productive activity. Therefore, a water supply will be an opportunity for a direct extra

income for them, not to speak of its indirect impacts.

A household with less land but more labour force may not benefit from agriculture projects, whereas a household with no active labour force but land may also not benefit.

(c) There was practically no or little dialogue on development issues between decision and policy makers and implementers (leave aside the people).

It is Important to have a feed back from the ground where the introduced policies are being implemented. This is a necessary precondition for development of an appropriate policy framework. As there was no feedback, policy makers generally had no idea what is the outcome of the policies would be, ultimately making it difficult to identify the appropriateness of the policies adopted.

(d) Performance of government led massive targeted poverty reduction programmes which had the objective of rural development stagnated, wasted resources, and had little impact on poverty reduction. Therefore they were unable to perform even a complementary role in rural development.

As we noted at the beginning, poverty and rural sector go hand in hand. Poverty is a multifaceted phenomenon and therefore there are more concerns other than merely increasing income and employment generation. Lack of access to infrastructure - roads, safe water, electricity etc. - is recognized as the top priority to be addressed in the perception of poor. Therefore, it was thought that rural development programmes that focused on improving infrastructure in the rural areas would substantially help to reduce poverty in those areas. However, people marginalized and excluded from the mainstream economy have not benefited from these improvements.

Many rural development programmes equalize poverty reduction and rural development putting the former in programme agendas of the latter with high priority. This makes rural development efforts abortive since the target group and areas have no capacity or capability to realize the task assigned. Instead rural development should address optimal ways of mobilizing rural resources to generate more and more employment opportunities by increasing productivity, efficiency and competitiveness in the sector. It is necessary to make a clear distinction between an enabling environment for sustainable economic growth and providing



basic needs for geographically and socio-economically marginalized people.

Recently, particularly after Amartya Sen's renowned contribution to development economics, emphasis was placed on human development and enhancing human capabilities and widening opportunities for the deprived in the poverty reduction exercise. Again this should not be mixed up. Poverty alleviation safety nets that are focused on individuals or households have nothing to do with rural development programmes such as area or regional development programmes. Poverty reduction safety nets should be responsible for maintaining minimum norms of human needs for deprived people.

As we see in practice, inability to demarcate these two routes is likely to be one of the main reasons for the failure of many rural development and poverty alleviation programmes that achieve none of their objectives.

(e) Some rural development initiatives led to severe market distortions, consequently restricting commercialization of the sector.

For example, many Government sponsored Farmer Cooperatives and organizations collapsed after withdrawal of government support and subsidies. Although they were established with the idea that they could bridge the gap created by the state withdrawal in relevant service delivery, and the collapse of traditional social organizations in the village, after some time they become rent seeking bodies rather than independent commercial ventures. These organizations have also hampered the emergence of new demand driven enterprises in the rural sector.

Strengthened cooperatives and state parastatals involved in input and product market and credit supply had a monopoly in their respective fields. The supply driven nature of service delivery of

these institutions led to the promotion of activities with low productivity and inefficiency in resource use, which ultimately resulted in bankruptcy for those institutions and making beneficiaries more destitute.

(f) Absence of a comprehensive **Rural Development Policy** kept the direction of initiatives always changing, which ultimately resulted in a 'mess' in this field.

The main productive component in the rural sector is agriculture and all other activities are more or less auxiliaries of this component. Hence, development of this sector is largely dependent on the government's macro-economic policies i.e. agriculture, trade and price policies. Therefore, thinking conventionally one can conclude that there is no need of separate rural development policy.

The macroeconomic context is changing continuously due to indigenous and exogenous factors affecting it. Therefore, the correspondence between macroeconomic policy and rural development interventions should be continuously adjusted. In a situation where there is no rural development policy, there is no way of taking rural sector interests into account. Therefore, adjustment to macroeconomic policies is likely to be realized at the expense of the rural sector development.

(g) Administration has been decentralized, but policy design at those levels has not been done. In order to boost enterprises based on local resources and to facilitate vertical and horizontal partnerships among large and medium scale private sector enterprises, semi-government and local government bodies with individual producers, a regional adjustment of the fiscal policy framework is needed.

Further, administratively decentralized bodies have no voice in national policy making even on issues within the scope of the respective agencies.

### A question of methodology?

Our main concern - employment generation is really a challenge for any kind of rural development initiative. Earlier it was thought that by increasing agricultural productivity alone this could be achieved, and direct efforts to generate income through government led development programmes was in vogue, at a point, the focus was on providing economic infrastructure and this later shifted to the supply of credit and so on.

However, the benefits of many of these efforts seem to have been eroded by inconsistent macro policies. Governments, in line with these changing roles particularly in the productive components of the economy, had taken the first steps to perform facilitator's role even in the field of rural development, in activities such as formulating and facilitating regional chambers of agro-producers or promoting contract farming and getting private sector involvement in agriculture extension etc. in order to stimulate commercialization.

The 1980s was regarded as a lost decade for development for many developing countries, particularly from the mid 1980s to mid 1990s. For some scholars this is same with development theory too. The latter is beyond the scope of this paper. Mainstream lines of development thinking too were held back. By that time there was a consensus that the market panacea doesn't work as expected. Social cost of Structural Adjustment Programme (SAP) advocated by the World Bank had been well recognized. The Civil Society approach comprising mainly NGO activities in development field in many countries was disappointing. Meantime rural development was re-identified as an area where the role of government is inevitable.

In the case of Sri Lanka development practice faced a difficult time as separatist insurrections came to a peak during this period. The economy was become a war economy rather than a development economy. However, thoughts and ideas on rural development were not lacking even in the so-called lost decade. What was lacking were policy instruments or viable strategies or in other words action oriented plans to realize these policy initiatives. To overcome this, a sound understanding of the possible impact of various policy options is needed. However, failure to achieve the objectives of existing development programmes led to consequent chaos.

Table 1

#### Differentiation of Rural Development Programmes from Poverty Safety Nets

Rural Development Programmes	Targeted Poverty Alleviation Safety Nets
<ul style="list-style-type: none"> <li>Focus is on the area as a whole</li> <li>Objectives are comparatively long term</li> <li>Largely dependent on other macro policies such as trade policies.</li> <li>Objective is to increase productivity, efficiency and profitability in local resource use.</li> <li>These programmes cannot be complementary to the poverty safety nets.</li> </ul>	<ul style="list-style-type: none"> <li>Focus is on individuals or individual households</li> <li>Short term relief programmes</li> <li>More or less independent on macro-policies.</li> <li>Objective is to support deprived people to enable them to meet their basic needs.</li> <li>These programmes can be complementary to rural development programmes.</li> </ul>



Therefore, the decade concerned seems to have been lost mainly because there were no sound working strategies introduced during this period. Generally it seems that governments continue to be in a dilemma that either cope with the issue through macro policies only or through conventional approaches or by a mixture of both.

Therefore, the question still remains whether the government should totally withdraw from direct involvement in especially designed rural development programmes, or continue such approaches along with consistent macro-policies, and whether the levers of the macro-policy mechanism are capable enough to provide the necessary momentum to uplift the rural economy so that it can provide employment opportunities to rural people to strengthen their livelihood.

## Summing up

Development has experienced various theories, plans, programmes throughout its history. However, practically more than quarter of the population in Sri Lanka are still below the poverty

line. Inability to cope with the changing politico-economic environment with rapid technological transformation is likely to be the main limitation of orthodox development programmes. Adoption of inconsistent policies exacerbated the situation. Apart from that, concepts of rural development have been obscured by various programmes with different political agendas (particularly with changes of government) and, in many cases, are confined to targeted poverty reduction programmes. Therefore, it is a need to separate clearly rural development programmes from other social welfare programmes such as poverty reduction safety nets, which can distort the original agenda of a development initiative leading to welfare oriented, but economically unproductive activities. In order to avoid these anomalies, it is an utmost necessity to define the scope of rural development and to develop a consistent and long-term Rural Development Policy with a sound methodology, capable of coping with the changing global politico-economic environment.

## References:

1. ADB, Perceptions of the poor, [www.adb.org](http://www.adb.org).
2. Asian Productivity Organization, (2001) Rural Transformation in Asia and the Pacific, Tokyo.

3. Bryden, J.M. (2000) Paper for International Conference: European Rural Policy at the Crossroads Arkleton Centre for Rural Development Research, University of Aberdeen.
4. Janvry, A. de and Sadoulet, (1996) Land Reform Bulletin, University of California, Berkeley.
5. Kalinga Tudor Silva *et al.* (1999) No Future in Farming, Center for Intersectoral Community Health Studies, Kandy.
6. ODI Briefing Paper, March 2002, Rethinking Rural Development, Overseas Development Institute, London.
7. ODI Briefing Paper, November 2001, Economic Theory, Freedom and Human Rights: The Work of Amartya Sen, Overseas Development Institute, London.
8. Saith Ashwani, (1992) The Rural Non-Farm Economy: Processes and Policies, International Labour Office, Geneva.
9. World Bank, Various Articles, [www.worldbank.org](http://www.worldbank.org)

## Footnotes:

- 1 Although unemployment and underemployment is widespread in Sri Lanka, it was reported that one of the major problems faced by the garment industry, particularly that based in the Western Province is the scarcity of skilled, semiskilled or unskilled labour. There were about ten thousand vacancies in BOI factories in the year 2000. This gives some indication of the social aspects of the employment problem.
- 2 Ironically, it was reported that there is a labour shortage in non-plantation agriculture too. (Silva *et al.* 1999)

## Contd. from Page 27

chlorfluazuron, buprofezin, lufenuron) and ecdyson analogs (e.g., tebufenozide) are examples for some Insect Growth Regulators currently registered for use. However, the end use of such products would of necessity be carefully checked so that, adverse side effects on related species (arthropods) would be minimum, before licensing with restrictions.

## Impact of pesticide bans and use restrictions

The adverse effects that pesticide use causes on the environment, human and animal health justify the Registration Authority to put regulations in place to govern importation, distribution, sale, storage and use. Banning the use of certain hazardous pesticides is a way of prohibiting importation and therefore, avoiding the use of environmentally persistent pesticides like DDT, aldrin, dieldrin, chlordane, and lindane.

The majority of countries in the region have banned some pesticides due to their adverse effects on the environment, human and animal health while putting some other pesticides on a list of restricted use because of the absence of effective alternatives. Countries with working

pesticide registration schemes often review registrations in terms of efficacy, impact on the lifeforms and the environment. On the basis of new information arising from properties of the product, reviews may result in banning or restricting the use of certain pesticides. The impact of banning some pesticides while restricting the use of others has not been assessed in majority of countries. However, the immediate effect observed is the shift towards the utilization commodity type alternatives. This situation was observed with the phase-out of monocrotophos and methamidophos where there was a clear trend towards the use of less expensive, broad-spectrum, commodity type pesticides such as chlorpyrifos, endosulfan and dimethoate (Figure 1). If the need is to reduce the use of pesticides, the main options available can be broadly classified into restriction of availability through regulatory measures and offering a package with alternatives to the user of pesticides such as Integrated Pest Management (IPM), Organic Farming, etc. It was evident as illustrated in the Figure 1 that if the farmer is not given an alternative option, they simply switch to another pesticide but no significant impact on the total use. But, if a promotional package is offered we can anticipate a reduction of use of pesticides or a deviation from the trend in chemical dependent pest control. The significant reduction in the use of fenobucarb (BPMC) in 1995 compared to that of 1990 (Fig-

ure 1) may be a result of intensive rice IPM program conducted by the Department of Agriculture where fenobucarb is mainly used on rice Brown Plant Hopper (BPH) control.

## The Sri Lanka Banned Pesticide List (BPL)

The Sri Lanka Banned Pesticide List (BPL) is a list of pesticides (Table 3) that have been reviewed and decided by final regulatory action to phased-out from use in the country as they pose unreasonable risks to human health and the environment based on the scientific studies conducted related to the pesticide which shows carcinogenicity, mutagenicity, teratogenicity, persistence, bio-accumulation, etc.

Many of the decisions have been made possible because of the linkages established with international and local regulatory authorities of foreign countries. Information received from such sources results in review of products as an ongoing function of the regulation.

## Footnotes

- 1 The LD<sub>50</sub> value is a statistical estimate based on the acute oral and dermal toxicity expressed by the mg of toxicant per kg of bodyweight required to kill 50% of a large population of test animals (usually rats).



# PRIVATISATION IN PAKISTAN

## Some Landmarks

Privatisation efforts in the country began in 1988, with the floatation of 10% shares of Pakistan International Airlines (PIA). Since then the privatisation policy has remained the cornerstone of Pakistan's economic policy and is likely to remain so at least in the near future. Between 1988 to 1990, privatisation was pursued with a view to divest 14 loss making units and raise funds by selling shares of profit making manufacturing units for retiring public debt and reducing debt servicing. However, efforts to sell shares of profit making units and divestiture of 14 loss making units could not succeed.

Process of privatisation picked up only after the setting up of the Privatisation Commission in 1991. The objectives laid down for the Commission included:-

- \* improving the level of efficiency, encouraging competition and creating a market based economy;
- \* attracting foreign investment, mobilising private sector resources for future investments and developing capital markets for mobilisation of domestic savings;
- \* reducing the size and scope of the public sector, and minimising financial drains of public enterprises on the government;
- \* maximizing receipts from privatisation to pay public debt and reduce the fiscal deficit;

Although the Commission's mandate was initially restricted to industrial transactions, by 1993 it expanded, to include energy, transport, telecommunications, and banking and insurance. Subsequently, the privatisation process gained momentum and between 1991-93, a total of 67 units were privatised. After that its pace slowed due to various factors (including the need for greater transparency, financial vulnerability of some units and the restructuring of public enterprises).

In the three years between 1994 to 1997, 25 units were privatised, while another 11 units were privatised between 1998 to 2000. Thus, besides the partial divestiture of PIA and Paki-

stan Telecommunication Corporation Ltd. (PTCL), 103 units have been privatised in the past ten years.

During the past 10 years, proceeds amounting to Rs. 60.5 billion or \$ 1.7 billion have been realised through privatisation. These include selling 12% shares of PTCL, 26% shares of Kot Addu Power plant (KAPCO) and privatisation of 4 banks and 97 other industrial units. Bulk of the proceeds (51%) came from PTCL, followed by the selling of a power plant (17%), four banks (11%) and 21% came from the privatisation of other industrial units.

Of the total proceeds, 80% was given to the federal government, 9.5% was released to meet restructuring cost, arising mainly from golden handshakes, 5% was given back to companies on whose behalf selling of share was carried out and 1% is lying with the Commission undistributed. The Commission itself utilised 4.5% of the total proceeds to cover its expenses.

In late 1999, the government decided to put privatisation on a fast track. A Privatisation Commission Ordinance 2000 was promulgated to strengthen and make privatisation process more transparent and speedy. At the same time the stock market was asked to play its due role in the privatisation process, preventing concentration of privatised units in a few hands.

Under the Ordinance, 90% of the proceeds from privatisation have been allocated for debt reduction and the remaining 10% is to be used for poverty reduction. Privatisation proceeds allotted for debt retirement, would primarily be utilised first to retire debt with higher interest.

Though the overall contribution of privatisation revenue to debt retirement would be modest yet:

- \* accelerated privatisation is absolutely essential for tiding over the current payment crisis;
- \* sends signals to the private sector to play an enhanced role;
- \* reduces the losses of public sector corporations, which have contributed to public debt build-up in the past;

At present, unprofitable units in the public sector are incurring an annual loss of Rs. 100 billion. The government has planned privatisation of some uneconomic mega public sector entities which are expected to generate sufficient amount of revenue. It has also adopted a two-pronged approach to privatisation: selling state firm shares on the stock markets and offering strategic stakes with management control.

The medium term program drawn up by the Privatisation Commission focuses on the sale of major assets in telecommunication, oil and gas, power and banking sectors, including giants like, Pakistan Telecommunications, Oil & Gas Development Corporation, Pakistan Petroleum Ltd., Pakistan State Oil, Habib Bank Ltd., and United Bank Ltd. The target is to mobilise at least US \$ 3 billion and to use the privatisation proceeds partly to retire high-interest short-term external debt and partly for poverty reduction.

In the aftermath of the September 11 events and the Afghan war, 70% of the privatisation program that was expected to raise \$ 1 billion by end 2001, had to be put on hold. Several large transactions with foreign investors showing interest which were to come up for bidding during the last quarter of 2001 have been postponed

**Units Privatised (1991-2000)**

Sector	Nos.	Amount (Rs. bn.)
Automobile	7	1.1
Banking	4	6.2
Cement	11	7.8
Chemicals *	14	2.0
Energy	3	10.6
Engineering	7	0.2
Ghee	19	0.7
Roti Plants	15	0.1
Telecommunications	1	30.6
Textiles	2	0.1
Other	20	1.1
<b>Total :</b>	<b>103</b>	<b>60.5</b>

\* Include fertilizer

Source: Privatisation Commission



## FEATURE

by three to four months. These include PTCL, government's minority working interest in nine oil and gas fields, United Bank Limited, National Power Construction Company, Pak Saudi Fertilizers and Falettis hotel.

Others have been offered or are being offered for bidding with little or minor delays.

Privatisation of some larger units that were expected to be bid during the first or second

advisors in traveling to Pakistan, difficulties in hiring new financial advisors because of the regional uncertainties and difficulties in taking unpopular pricing decisions.

### CONCLUSION

Poor experience with state owned enterprises (SOEs), misuse of public sector institutions and large-scale corruption resulted in poor quality of services, huge fiscal losses, reduced revenues,

part of each administration's economic policy since 1988.

Privatisation policy needs to be pursued with the main objective of improving efficiency in the economy. The sale of assets should bring maximum prices so as to reduce budgetary deficit and subside resultant inflationary tendencies.

Of the total privatisation proceeds raised in the past ten years, Rs. 48 billion has reportedly been handed over to the government to retire debt and reduce fiscal deficit. This was a meager amount when compared with total debt of Rs. 4003 billion at the end of FY 2001; domestic debt Rs. 1708 billion and external debt Rs. 2295 billion including explicit liabilities. It could meet only 1.2% of total debt or 2.1% of external debt. The saving on interest payments is however, estimated to be of the tune of 14.8%.

The government hopes to raise \$ 3 billion through privatisation by March 2003. Of this, \$ 1 billion was expected by December 2001, but after the September 11 events, it now expects to get this amount by end March 2002, as privatisation of major assets has been delayed. Privatisation of minor assets continues and so far Rs. 2 billion has been earned.

### Reference

Economic Bulletin – Nov. - Dec. 2001  
National Bank of Pakistan

quarter of 2002 is largely on schedule, with minor delays due to restrictions on financial

lower productivity, higher prices and mounting external debt. Privatisation has been the integral

### Major Transactions Expected by Dec. 2002 & 2003

Company Name (Shares to be offered)	Date of Bidding
Pakistan State Oil (51%)	Expected in 3 <sup>rd</sup> Qtr 2002
Oil and Gas Development Corporation Ltd. (51%)	Expected in 3 <sup>rd</sup> Qtr 2002
PPL (51%)	Expected in 4 <sup>th</sup> Qtr 2002
Habib Bank (51% strategic sale)	Expected in 1 <sup>st</sup> Qtr 2003
KESC (51-74%)	Expected in 3 <sup>rd</sup> Qtr 2002
Pak Arab Fertilizer (100%)	Expected in 3 <sup>rd</sup> Qtr 2002
Faisalabad Electric Supply Co (26-51%)	Expected in 4 <sup>th</sup> Qtr 2002
Jamshoro Power Co. (26-51%)	Expected in 4 <sup>th</sup> Qtr 2002
Sui Northern & Sui Southern (51% each)	Expected in 1 <sup>st</sup> Qtr 2002
Investment Corporation of Pakistan (ICP) (Right to manage fund)	Expected in 2 <sup>nd</sup> Qtr 2002
Bank Alfalah (30% public offer)	Expected in 2 <sup>nd</sup> Qtr 2002
Bolan textile Mills (100% share offering)	Expected in 2 <sup>nd</sup> Qtr 2002
Al-Haroon Building (100% offering)	Expected in 1 <sup>st</sup> Qtr 2002

## ECONOMIC REVIEW – BACK ISSUES –

*A limited stock of back issues of Economic Review, (copies Sinhala & Tamil editions as well) is now available for sale. Interested readers could obtain them, by call over at the Research Department, of People's Bank, Head Office, Colombo 02, during office hours. For inquiries, please dial 481422, 481429.*

### Available Copies of Back Issues

1998 - March	- Water Resources	2001 - January/March	- Banking
1999 - January/March	- Paddy Sector	April/May	- Liberalization
April/May	- Population Aging	June/August	- Tea
June/July	- Garment Industry	September/October	- SAARC
August/October	- SAPTA	November/December	- Water and Livelihood
November/December	- Educational Reforms	2002 - January/February	- Consumer Protection
2000 - January/March	- Euro	March/April	- Economy of Sri Lanka
April/May	- Globalization	May/August	- Agriculture
June/July	- Tourism	September/October	- Transport
August/October	- Competitiveness		
November/December	- Poverty		



மனசை வளர்க்குதே



அனைத்து வகை சேவைகள்

People's Bank



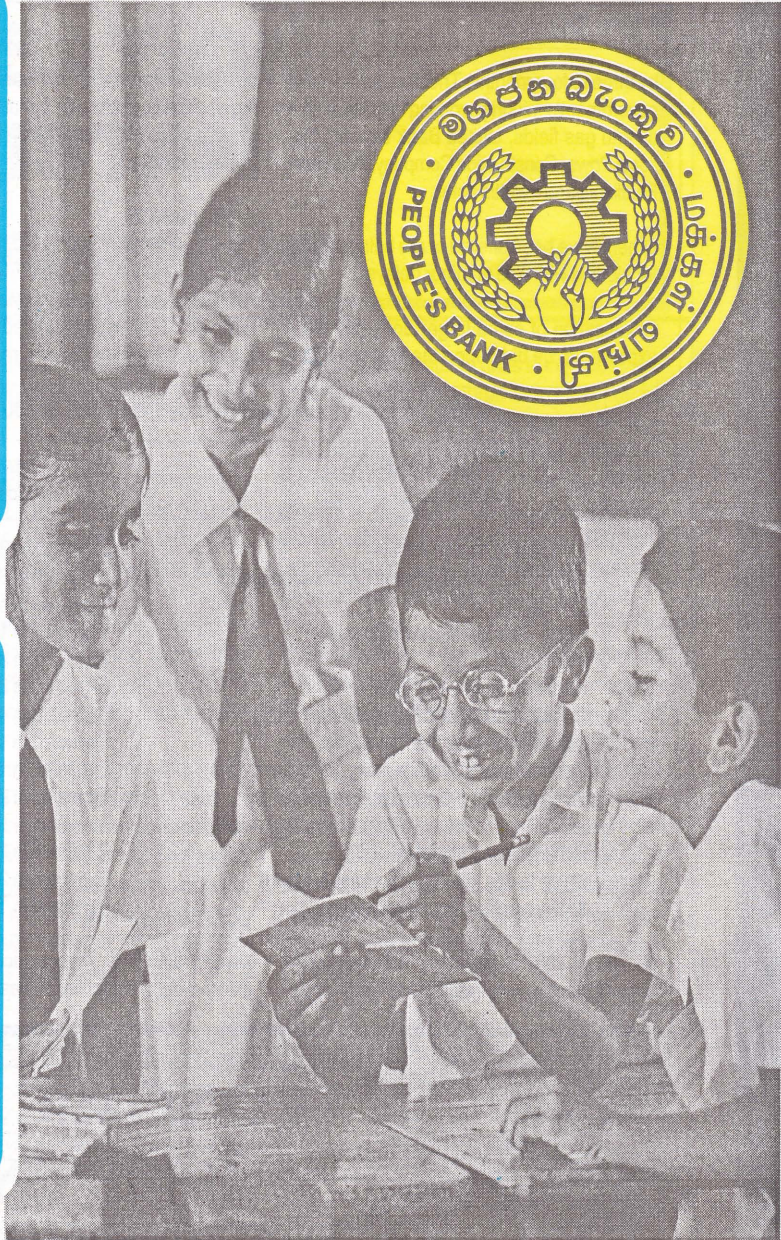
Sisu Udana

Give your child a future

மக்கள் வங்கி



எதிர்காலம் எழுது பிள்ளைகளுக்காக உழியது



### What are the advantages of saving with a Sisu Udana Account?

There are many advantages.

We guarantee a higher Interest rate on your child's savings. You would also be entitled to exciting gifts from People's Bank, as your savings grow.

In addition you child will also receive

- Free Insurance cover and scholarships.
- A Special Bonus of Rs.1000/- if your child passes the G.C.E. Ordinary Level examination with distinctions in all subjects in the first sitting.
- A Special Bonus of Rs.2000/- if your child completes the G.C.E. Advanced Level examination with "A" passes in all subjects, in the first sitting.

For further information Please Contact nearest People's Bank

Price Rs.30/-