

ECONOMIC REVIEW

April/June 2003

Entrepreneurial Development

A People's Bank Publication

Diary of Events

April

28

The Tea Development Project (TDP) is planning to utilize \$3.2 million from the Asian Development Bank for the reconstruction of underdeveloped roads and infrastructure development in the 13 districts where tea is grown.

May

05

The Kukule Ganga Hydro Power Station (KGHP) will be commissioned in September this year. It consists of two generators each with 35 MW capacity. The KGHP project was estimated to cost Rs 15 billion, the local component was met by the Ceylon Electricity Board while the foreign component of over Rs 12 billion was provided by the Overseas Economic Co-operation Fund of Japan.

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The Central Bank of Sri Lanka announced a much anticipated reduction in the repurchase (Repo) and the reverse repurchase (Reverse Repo) rates. This cut in the rates, which accounted for 0.75%, brought the two rates down to 8.25 and 10.25 respectively. This was the second rate cut for the year by the Central Bank, the first being in the first week of January which also was by 75 basis points.

The Colombo Consumer's Price Index (CCPI) as computed by the Department of Census and Statistics was 3062.8 in April 2002. This represents a decrease of 1.2 per cent over the level of the previous month.

Government has abandoned the proposal to construct a thermal coal power plant in Trincomalee following strong protests by environmentalists and the people of Trincomalee. The 300 megawatt plant is now planned for construction in Hambantota deep-south of the island.

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President Chandrika Kumaratunga pledged to grant rupees hundred million from President's Fund to repair and rebuild flood damaged dwellings in the country.

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Shell Gas Lanka Limited has reduced the price of 12.5 kg domestic gas cylinder by Rs 70 with immediate effect. Accordingly, the new selling price of a 12.5 domestic cylinder will be Rs 595 (Colombo basis) from the current selling price of Rs 665.

Laugh's Lanka Gas (Pvt) Limited reduced the price of its 12.5 kg. domestic liquid petroleum Gas (LPG) by Rs 70. Shell Gas Lanka Limited has already made similar price reductions. Accordingly, a 12.5 kg. domestic cylinder will be priced at Rs 595 in Colombo and suburbs. Outstation prices will vary inclusive of transport.

The Social Scientists Association in collaboration with Bradford University in the United Kingdom has launched a special programme to provide peace education to Sri Lanka. The programme will offer part time studies in conflict resolution and peace preparedness free of charge at two centres, Vavuniya and Matara where the lecture rooms have been donated by the UNHCR and a local NGO INDECOS (Matara)

The foreign office of the Federal Republic of Germany has allocated a sum of Euro 400,000 equivalent to Rs 44 million for the provision of mobile water treatment plants for the supply of drinking water for hospitals and for people

affected by the floods. Part of the assistance will also be utilized for the cleaning of wells in the flood affected areas.

In response to the scale of disaster and urgency of the need to support local assistance efforts, Canada is providing a grant of \$ 100,000 to the International Federation of the Red Cross and Red Crescent Societies. This is to provide safe water, clothing, blankets, soap and cooking utensils to those who have been affected.

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Pakistan based Lakson Group has agreed to form a joint venture with Tetley Tea, a unit of Tata Tea Ltd., to import and sell tea in Pakistan. The two tea companies will invest a total of \$ 5 million in the venture which will also include a tea blending plant at Pakistan's Baluchistan Province. Tea will be imported into Pakistan from Sri Lanka, Kenya and possibly India.

Tourist arrivals which declined by 15.9 percent in 2001 and 24 per cent in the first half of 2002 recovered strongly to grow by 101 per cent in 2002. This remarkable growth of course was on a lower base in the second half of 2001.

The Government of the Republic of Korea has decided to grant a sum of 50,000 US dollars to the Sri Lankan Government to help bring relief to the people in flood stricken areas.

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China has agreed to provide approximately US\$ 605,000 worth of assistance to Sri Lanka for the ongoing efforts to provide flood relief to affected people. The agreement for provision of this assistance was reached in Beijing on May 27th.

June

10

Donors pledge US\$ 4 billion to rebuild Sri Lanka: Japan US\$ 1 billion; ADB US\$ 1 billion; WB US\$ 800 million; EU US\$ 293 million; US-US\$ 54 million.

18

The Government of Austria under its export credit programme has offered a credit of Euro 15.23 million (approximately Rs 1,710 mn) for the construction of railway bridges identified under the rail track extension project phase I. The project will be implemented by the Ministry of Transport.

The Muthur jetty is to be rehabilitated by the Sri Lanka Ports Authority at a cost of Rs 15 mn. This work will be handled by the same engineering firm which constructed the alongside berth at China Bay.

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The World Bank has decided to grant Sri Lanka a sum of US\$ 125 million (Rs 12,000 million) as poverty reduction Support Credit. The decision was taken by the Executive Board of the World Bank in Washington. Funds are disbursed through the International Development Association on concessionary terms and repayable in 30 years with the ten year grace period.

Action has been taken to set up a "Special Languages Project" for the North East Region to teach Tamil to the Sinhalese speaking public servants and the Sinhalese to the Tamil speaking public servants. The Official Languages Commission has organized classes to teach Tamil to the Police Officers in Jaffna, Vavuniya, Batticaloa, Trincomalee, Kalmunai and Nuwara Eliya under this project.

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EXTERNAL TRADE

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Challenges, Issues & Growth Orientation of Sri Lankan Entrepreneurship

Introduction

The history of entrepreneurial behavior in Sri Lanka is vivid and exclusive in many aspects. But, one could question the responsibility, behavior and potentials of present entrepreneurship in the context of globalization and achieving quality of life improvement goals of our nation. This article is an attempt to explore some of the performance and personality characteristics of growth oriented entrepreneur class in Sri Lanka with the objective of evaluation for any one concerned on entrepreneur behavior and devise developmental intervention to rectify some miss alignments. The article is largely based on data collected for a 'GOE study undertaken on behalf of ILO-SIYB project in Sri Lanka covering a sample of 100 entrepreneurs from the Western Province.

Defining who is a Growth Oriented Entrepreneur (GOE)

Before defining whom a GOE, it is pertinent to explore how an "Entrepreneur" has been defined in the literature. Richard Cantillon (1755), identified entrepreneur as a self-employed individual who does not work for wages. Since then, number of definitions has been evolved and some of the widely used definitions are:

"An entrepreneur is some one who perceives an opportunity and creates an organization to pursue it" (Bygrave, 1993)

"An entrepreneur is a major owner and manager of a business venture not employed elsewhere" (Brockhaus, 1982)

"An entrepreneur is a one who creates a new organization" (Vesper, 1990)

"An individual who conceives the idea of business, designs the organization of the firm, accumulate capital, recruits labour, establishes relations with suppliers, customers and the government and converts the conception into a functional organization" (Hegan, 1968)

As the above definitions indicate, there is no commonly accepted definition for entrepreneur-

Sarath Buddhadasa

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ship and, the same applies to Growth Oriented Entrepreneurs" (GOEs) too. However, surveying the literature on entrepreneurship, one will find two ways of viewing entrepreneurship, namely macro and micro, based on their intentions for being in business. In the case of macro entrepreneurs, the emphasis is on "profit and growth" whereas micro entrepreneurs seem to rely on "earning an income for survival". The micro entrepreneurs seem to limit the growth by themselves, due to various reasons making the enterprises stagnant. Further, GOEs tend to accelerate the growth of their enterprises in most of the cases increasing the turnover and employment threefold in every three year time period. Hence, macro entrepreneurs with a high potential and an implicit commitment for rapid growth could be identified as GOEs.

Studying the 'personality character mask' of GOEs based on studies undertaken globally, the "GOE has been profiled as high risk takers with a high need for achievement, emphasizing profit and growth while having high tolerance for ambiguity in the pursuit of innovations". They, in recent literature are characterized as individuals having effective networking ability with a high "internal locus of control" meaning that they believe in their intrinsic ability to influence and control events occurring in the environment that have an impact on the growth of enterprises. At the enterprise level, they record higher level of growth rates compared to prevailing industry averages.

Characteristics of GOEs in Sri Lanka

Studying the characteristics of GOEs, one could separate the success indicators of 'GOE enterprises' from the 'GOE personality characteristics' which are essentially, the intrinsic psychological factors the individual entrepreneurs are supposed to be having in driving their enterprises towards anticipated visions. However, one could argue, that the 'GOE enterprises based success indicators' are as reflections of the GOE behavior and hence, it may not be realistic to identify the two as

separate phenomena. But, separation of these too while accepting the existing correlation would be beneficial in understanding the dynamics of the variables in arriving at conclusions regarding the enterprise development process.

Therefore, in this article the main characteristics of growth oriented enterprises are identified separately and analyzed.

GOE: Enterprise based characteristics

Life span and geographical concentration

The survival rate of Small and Medium Enterprises (SMEs) is higher in any given country compared to larger enterprises. A study undertaken in the southern Sri Lanka revealed it to be 94% within five years of their commencement. In this study, it was found that a small portion of GOEs have successfully survived in the market for fairly a long time period leaving to assume that the success rate is about 20% in the context of GOE category. Majority of the GOEs (67%) have commenced their enterprises after 1990 and only about 15% of them had initiated prior to 1980.

A Common phenomenon in enterprise development is that with the development process, the enterprises gradually migrate in to urban areas owing to better infrastructure, market expansion, access to technology & business development services (BDSs). In Sri Lanka too majority of the entrepreneurs (64%) operate in the urban areas. Though there is somewhat a sizable amount of entrepreneurs (36%) operating in rural areas, most of them are found to be in close proximity to urban city centers mainly due to the advantage of having access to better infrastructure.

Nature of businesses and market coverage

Trading appears to be the most popular activity (45%) amongst the growth oriented entrepreneurs and manufacturing is the least popular (16%) while services sector has acquired a position close to the middle (39%). Accordingly, some GOEs are active in more than one

sector and it indicates that still Sri Lankans rely on merchant capitalism and it may take some more years for industrial capitalism to acquire dominant position. The low priority for manufacturing given by GOEs indicate that the indigenous resource utilization is ignored by the entrepreneurs and they have gone into sectors which are less risky and the same time occupied places where the survival barriers are low. Further, it is a clear case to prove that our

community and the level of savings in an economy largely determine the quantitative and qualitative outputs that would enhance the level of profits. Connected to these are the results of such organizational behavior impacting on employment, balance of payment and, capital expenditure which will be impacting on quality of life of people in turn. Recording low investment capabilities among GOEs invariably lead to an educated assumption that the GOEs have not adequately positioned in the

tional production methods and innovate in the area of management too while introducing a systemic approach into the supply chain. These are immediate needs among them if tangible results are to be expected at a short run which is a must in the face of accelerated growth the competitor products and services offer.

Background of GOEs

Age and Gender

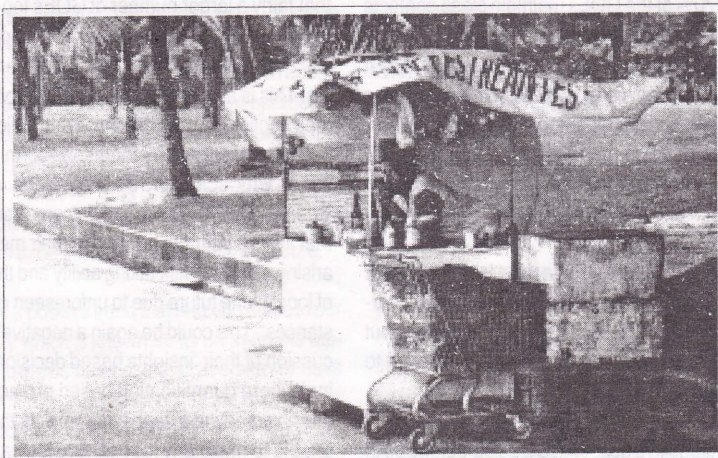
Most of the entrepreneurs (39%) are in the age group of 36 to 45 years. Though there is substantially a larger group (42%) which is over 45 years of age revealing that significant number of them are below 50 years. This indicates that the majority of them are within the age group 36 to 50 years. Males have a predominant position (90%) among the growth-oriented entrepreneurs. When the situation with regard to different districts is taken into account, there seem to be no change in this position.

This indicates two issues relating to the age and the participation of women in business activities. The white color colonial attitude that prevent people venturing into business at the young age and the rigid hierarchical social value system especially the parents preferring their children avoiding entrepreneurship is still a crucial factor in our society impacting negatively towards engaging in an entrepreneurial career. Further, the family and social obligations necessarily a cultural requirement make entrepreneurs share the profits with extravagance and unproductive engagements weakening the investment capability of the enterprise and also lowering the growth, which is at the end will deprive the entrepreneur achieving business goals at relatively a younger age. This makes the 'urge to achieve' motive loose its strength as the entrepreneur reaches maturity and declining stages in his or her personality life cycle.

The issue of women's not being able to get on to the GOE levels make the dependent population a heavy burden to the economy which needs to be studied and create a conducive environment for women to upgrade themselves in to elite bracket of GOE through their businesses which are at the moment, mostly self employment's and stagnant enterprises with little or no growth.

Educational standard and language skills

When the educational standard of the GOEs is taken into account it was revealed that the majority (78%) of GOEs have had formal education at least up to GCE(A/L). 34% of the GOEs have completed either diploma/degree



enterprises are dependent more on imported inputs except the labor, making the profit margins thinner, thus weakening investment capabilities resulting in less contribution to the national economy. Unless they expand the operations beyond the national boundaries, the GOEs would in the future be walking on a risky path where they have to meet the challenges posed by the globalization.

About 90% of GOEs rely on the local market for their business operations. In fact 90% of them depend solely on the local market for their turn over. Only a minority (10%) of these enterprises are engaged in export marketing while some are active in both the markets. This situation must be changed if the Sri Lankan GOEs are to grow and expand their horizons in the face of severe competition posed by foreign products which are characterized by their high priority given for quality and scale of operation carving a competitive edge for them in the present market place.

Investment and employment

Investment among majority of GOEs (68%) is less than Rs. 20 million. This shows that most of these GOEs are falling into the Small and Medium Enterprises (SME) category. However, about 10% of the GOEs fall into the large-scale businesses that exceeds the total investment of 20 mn. minus land and building. The investment capability of the business commu-

economy to provide the anticipated 'push' to the economy through an accelerated growth and expansion.

Information about employment in the GOEs revealed that majority of them (about 70%) has less than 50 employees. In fact around one half of these units have up to 25 employees. In the context of a liberalized economy which relies largely on market forces to determine best combinations of goods and services to fulfill the customer needs, wants and aspiration while minimizing waste and maximizing resource utilization, the GOEs behavior is very critical. But, our GOEs have not been able to absorb labour adequately enabling to keep the unemployment levels lower in the economy. Hence, it indicate that the GOEs needs to be more risk oriented in expanding the markets and increase the use of inputs while enhancing and increasing capacity utilization and modernization by making capital investments.

Enterprise drivers

Majority of GOEs revealed that customer (70%) and quality (65%) orientation as the leading factors or driving forces behind business success. Other factors that have some bearing on this aspect include profit seeking (30%), striving for stability (20%) and pursuant towards innovation. Hence, Customer and Quality orientation can be considered the main driving forces of GOEs. However, the GOEs must further translate these factors in to actions and challenge the conven-

or equivalent programs. Since only a minority (20%) have had education up to either GCE O/L or primary level, it shows that most of the GOEs have reasonably a high level of educational standard.

When attention is focused on the language skills of the GOEs, it was indicated that a larger majority of them (90%) are conversant in speaking and writing in English other than their native language i.e. Sinhala or Tamil. However, not even 10 % of them are found to be conversant in all three languages. On the other hand, only a small minority (08%) can speak one language (i.e. Sinhala or Tamil). The position of language skills among GOEs appear to be quite different when compared with that of the micro enterprise sector where the majority has speaking and writing skills only in their mother tongue.

In addition to academic background, some of the GOEs (35%) have vocational and professional backgrounds. It is interesting to note that about 40% of the GOEs have studied various subjects that are related to their business operations such as marketing, accounting, information technology, business management, technical subjects etc. In fact, some of these entrepreneurs are professionals in the respective fields who have commenced businesses after receiving professional qualifications.

This situation suggest that to be in business with a growth orientation, the entrepreneurs education act as a strong influencer, which was not the case in the past where, the business was regarded as a field for individuals who could not carry on with further studies through the formal educational system.

GOE: Personal competencies

Social Relations and networking

Most of the GOEs actively engaged in various recreational activities during leisure time and only a small group of them (15%) are confined to activities related to own business. In addition engaging in these activities, quite a large section of these GOEs (70%) are members of various social organizations. Most of them have chosen organizations such as Lions Clubs, Old Boys/Girls Associations and Trade Associations. This leads to social network building where they use these contacts as means if influencing persons/events with an ultimate objective of furthering their business operations. However, there seems to be a few GOEs interested about social welfare activities.

This tendency is a very positive one in the context of enhancing the ability to build long

term client relationships through social networking. This could be a positive manifestation of the affiliation-oriented mindset of Sri Lankan GOEs. If this competence is used effectively for expanding the existing local markets boundaries into foreign markets, the GOEs would be able to immensely accelerate the enterprise growth ensuring the realization of higher level profit objectives.

Networking with BDSs and financing

About 70% of the GOEs maintain close contacts with the institutions and persons who can offer guidance for them in managing their business. It shows that the majority is interested in networking with institutions and person that can offer assistance to develop their businesses. However, it further indicates that some (30%) of them do not pay much attention on this aspect.

In addition to keeping contacts, a large section of these entrepreneurs (67%) show an active interest to get information to update themselves about the changes taking place in the fields relevant to their businesses.

This is a positive aspect of GOE competencies in contrast to micro entrepreneurs who are reluctant to seek guidance and non financial support from BDSs. Believing on own experience and ignorance of such services among the micro sector is a deterrent to the marketing of BDSs in Sri Lanka whereas the GOEs behavior indicate otherwise. This behavior invariably, it could be assumed, has helped the GOEs to establish business oriented relationships based on trust making BDSs extending especially financial services to the GOE sector.

Among the majority (72%) of GOEs the initial investment has come from family sources. Funding institutions (27%) and private sources (13%) could be identified as the other avenues that had been used by the GOEs for obtaining funds.

In the case of subsequent investments, financial institutions have become the most sought after financier (80%). Venture capital firms are the other important source that is used by the GOEs. Extensive use of financing institutes for funding GOEs shows as mentioned earlier, that they have succeeded in maintaining satisfactory working relationship with those institutes. This leads to the conclusion that GOEs do not have any constraints in having access to funds.

Value system and culture

The majority (60%) of GOEs believe that religion can influence a person's entrepreneurial thinking. Further, most of them believe that it can have a positive influence on entrepreneurs. However,

about one fourth of the GOEs are of the view that they can not make any influence in this regard.

In the case of traditional beliefs, situation seems to be quite different and only a minority think that the traditions can influence entrepreneurial thinking and another about one third of them are of the view that it does not have any influence.

But, focused interviews conducted indicated that fairly a larger number of GOEs too as the micro entrepreneurs do engaged in unproductive non business oriented traditions and rituals. This is a contradictory factor compared to their explicit idea of intrinsic power, which they believe possessed by themselves. An analysis of why some GOEs tend to believe in extrinsic influences on their outcomes suggest that it fills a vacuum created in their mentality, arising out of low risk taking ability and the 'fear of loosing the future due to unforeseen circumstances'. This could be again a negative repercussion of their 'insights based decision making' where quantification based pro action is missing creating a 'fear syndrome' as they are unable to make any rational and logical judgments regarding the future enterprise behavior.

Objective of being in business

Realization of lifelong ambitions can be identified as the main reason that has led to most of the GOEs (60%) to become entrepreneurs. Other factors such as "no other option of earning an income", "family traditions" etc. have influenced for a small group of them. This means, most of the GOEs have had a business-related vision prior to commencing enterprises.

At the same time, profit and growth can be recognized as the prime objective of being in business for most of the GOEs. Further, the other factors such as earning an income for the family, prestige, family tradition etc. have had an impact on a lesser percentage of entrepreneurs (less than 6%)

Many of the GOEs are visionaries who strive to achieve their personal dreams through a business strategy. As such, the attraction to business and the belief that long term visions could be easily achieved through business has made them to strengthen the orientation for profit without which realization of life goals is not easy.

Risk taking and innovational behavior

Most of the GOEs (over 70%) have a tendency to introduce new products/new methods in their business. This tendency is clearly manifested from the fact that about one half of them

have introduced more than five innovations during the last three years. In addition, data on application of these innovations indicates that most of them are successful. This clearly shows that the majority of GOEs have a tendency to use innovations in their businesses.

Coupled with the innovative behavior, data collected from the field survey reveals that about 60% of GOEs are in favor of working in changing environments. It further indicates that 65% of GOEs are confident of their ability to guide the enterprises when operating in a rapidly changing environment. In others studies undertaken in Sri Lanka on Sri Lankan entrepreneurs, it appears that the innovational behavior is low on average, suggesting the risk aversion tendency. However, this is not the case in terms of GOE category that is change oriented and strives to be innovative in the market place.

This is a positive trend that is taking place in our society which is known for its unfavorable attitude towards business and aversion of risks promoted primarily by the way the children are guided from their childhood inculcating non achieving behaviors.

Use of intuition in making decisions

When handling problematic situations, about one half of the GOEs seem to rely on available information. While about 15% seeks others' help for this purpose and, 30% appears be receiving outsider's assistance and also uses available information. It appears that most of these entrepreneurs are in a position to use their inner feeling together with available information to determine the right course of actions in demanding business situations. Most of the GOEs (about 50%) appear to use both macro and micro view when evolving solutions for problems. However, since a majority (25% against 9%) favors macro view in comparison to micro view, it indicates that macro view that is considering entire situation as a whole is used to a large extent by the GOEs.

In the case of identifying feasible projects also, most of the GOEs (54%) use their inner feelings. It shows that only about 30% of GOEs rely on making comprehensive feasibility evaluations and another 10% of them depend on both the methods. Based on these findings one can conclude that most of the GOEs uses intuition or inner feeling that is not based on any detailed analysis of available information in managing their enterprises.

This may be a tendency caused by their reluctance to number calculations and more preference given for qualitative analysis when con-

fronted with situations. Also, an Asian cultural phenomenon is that the individuals rely more on unstructured reasoning compared to their western counterparts. This, makes GOEs more comfortable in believing on their feelings and emotions in analyzing and making decisions rather than quantitative data and calculative solutions. If this is the case, trying to make GOEs thinking based on numbers and feasibility calculations would be futile effort.

Locus of control and achievement drive

With regard to influencing outcome of events affecting business or life, most of the GOEs (over 70%) are of the view that they have the necessary capability. In addition, another 25% of them think that they have some capability to influence outcome of events.

In the case of "position of the business" in five years time about 80% of them consider their own action as the crucial factor. Only a minority thinks that factors such as luck or karma as perceived by them and uncontrollable external factors can influence the aspect. This indicates that most of the GOEs perceive that they can influence the outcome of events. This means they have a relatively high internal locus of control.

Other studies, conducted earlier suggest that GOEs tendency to believe the concept of 'karma' misconceived as a unchangeable influencer and 'unknown' who believed to be shaping the fate of an individual create 'limited growth orientation' at the long run in their entrepreneurial career.

It is observed that need for achievement among GOEs assumes a second place in comparison to need for affiliation. Achievement need is found to be dominant only for 25% of GOEs. In there case too, need for affiliation it seems to be quite strong, meaning over 20%. Over all, need for affiliation is playing a leading role in 50% of GOEs. Further, need for power is found to be high only for 16% of GOEs.

It has been observed that most of the GOEs are concerned about the well-being of their family and, personal achievement seem to have a secondary importance for them. In other words success in business is used as a means to achieve family well-being. It is further observed that need for power takes a place in general.

However, combining the external locus orientation with high need for affiliation, among GOEs would be a key mental block that results in business growth and weakening of risk taking ability after achieving some growth in the business. This leads to entrepreneur strengthening his 'power grip' in the business depriving high growth and long term sustainability.

Employee motivation, team orientation and delegative behavior

It was revealed that majority of GOEs (over 80%) maintain close contacts with the employees. In most cases, views of employees are also considered to some extent in taking decisions in the business. However, majority of them (70%) seems to discourage informal group formation within their business. This suggests that though the entrepreneurs perceive them as team oriented people, in actual terms they tend to have some people related difficulties in their enterprises which is a clear indication of 'power grip'. A large majority of GOEs (over 95%) are found to be in favor of delegating work to others. Delegation becomes meaningless when subordinates who are in a position to assume responsibility are not willing to do so. However, most of the GOEs (80%) think that they can deal with such persons. This indicates that most GOEs favor delegation of work although it does not happen in many of the enterprises. As such, non delegative behavior of GOEs could be attributed to their power grip tendency, which needs to be addressed if the stagnant behavior is to be broken.

However it was found through focus interviews that over 70% of GOEs think they have the capability to encourage their employees to perform their tasks well. This indicates that the majority of GOEs perceive that they have the necessary skills to motivate their employees and yet there are some (about 25%) who are not satisfied about their capabilities. In the case of persuading employees to use their initiative, only about 60% of GOEs think they can succeed. 40% of entrepreneurs are not so confident about their capabilities. This suggest a perceptual gap between what they think of themselves in term of peoples competencies and actual application of the competence creating team work difficult with them.

Conclusion

Studying the entrepreneurs behavior in the Sri Lankan context with the emphasis on GOEs indicate that the GOE behavior is largely different to micro entrepreneurs behavior suggesting that such an elite class of business community is a must for a country like Sri Lanka which strives to benefit from the changing international market situation with an 'export oriented business strategy'

However, there are critical aspects related to their personality character which needs to be improved if they are to exploit the opportunities created by policy and global environment.

Dynamic Pattern of Entrepreneurial Networks in Developing Countries

A Managerial Approach

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The paper evaluates the dynamic pattern of entrepreneurial networks in small business development. The pattern emphasizes importance of different types of entrepreneurial networks in different phases of development of a small firm. In this paper, members of entrepreneurial networks are classified into three components: namely, social, professional, and inter-firm actors. It is assumed that members of social network are important in pre-start-up phase of a firm, and members of professional are important in the start-up phase while actors inter-firm strategic network play a major role in the on-going phase. The results of the study, however, indicate that while social networks are important in every phase of a small firm in Sri Lanka, the professional networks play a minor role. The role of inter-firm networks is crucial during the on-going business phase. The empirical evidence of the study is based on extensive interviews with 303 small business entrepreneurs in Sri Lanka, which is considered as a less developed country.

Networks can be defined as a set of nodes and the relationships that connect them (Fombrun 1982). Alternatively, as Dubini and Aldrich (1991: 305) put it, a network is a set of *'patterned relationships between individuals, groups, and organizations'*. Importantly, however, networks are not static: they are dynamic (Birley and Cromie 1988, Butler and Hansen 1991). Relationships, as Grabher (1993: 5) reminds us, are *'continuously constructed and reconstructed during interaction'*. While the entrepreneurial network often becomes 'amplified' as the firm grows, entrepreneurs typically encounter difficulties in extending and sustaining appropriate relationships (Venkataraman 1989). To understand networks, therefore, requires an understanding of the dynamic pattern of networks.

ENTREPRENEURSHIP RESEARCH AND SOCIAL NETWORK APPROACH (SNA)

Entrepreneurship research has been guided by different schools of thoughts (see Kent, Sexton, and Vesper 1982; Veciana and Clarke

1996). Some of them focus on psychological aspects, researching behaviors or traits, or both. In this view, an entrepreneur is seen as a set of traits and characteristics (Brockhaus 1982; McClelland 1965). Some pay their attention to economic aspects, examining economic rational behavior of entrepreneurs. According to their view, the entrepreneur, motivated by the desire to maximize his personal utility function, with perfect information and a clear vision of his goals, makes the decision to start a business (Kahneman, Slovic, and Tversky 1982). The others focus on socio-cultural aspects, studying the social and cultural backgrounds of entrepreneurs. They describe entrepreneurship as influenced by membership in certain ethnic, religious, political, or occupational groups (Shapiro and Sokol 1982). The common weaknesses of these traditional approaches mainly

relation or transaction. Sociologists, anthropologists, social psychologists, and organizational theorists have used this approach to study the relationship between people and organizations. The SNA has been suggested (Aldrich and Zimmer 1985; Birley 1985; Johannisson 1986) to explain why some people are more successful in initiating and maintaining businesses, discounting the personal, economic and socio-cultural factors. Furthermore, this approach was supposed to be more appropriate to explain entrepreneurship in Sri Lanka since Sri Lankans are collectivists and group-dominated. In such a collective society, it is natural to use the SNA to study entrepreneurship (Chu 1996; Redding 1990).

People might, sometimes, have some ideas, skill, but to start a new business they also need influence, encouragement, etc. In other words, a single person usually does not have all the necessary resources to start his own business. According to the SNA, most resources have to

TABLE 1

Different Networks for Different Business Phases

Business Phase	Type of Networks	Role of Networks
Entrepreneurial Phase	↔ Social Networks	↔ Opportunity identification
Business Start-up Phase	↔ Business-focused Networks	↔ Business formation
On-going Phase	↔ Inter-organizational Strategic Networks	↔ Linkage firm to other organization.

include the unrealistic assumption that resources including information are freely available. This unrealistic assumption guided researchers in recent years to develop a thought for the study of entrepreneurship, focused on the mechanisms through which the entrepreneurs obtain necessary resources. The new thought is named as the Social Network Approach.

The logic of SNA on studying entrepreneurship starts at the point where two people establish a

be obtained from outside or his external environment through the entrepreneur's personal networks. In this regard, entrepreneurial process involves the gathering of scarce resources from external environment and entrepreneurs usually obtain these resources through their personal network (Birley and Cromie 1988; Curran *et al.* 1993, Ostgaard and Birley 1996). The existing literature suggests that the entrepreneur's personal network is really an *opportunity set*, which helps new entrepreneurs

to access both tangible and intangible resources (Butler and Hansen 1991, Falemo 1989).

By its nature, firms, however, face different problems and requirements in different phase of their development. Firms therefore need different resources and support in different phases. Before starting a new business that, according to Butler and Hansen (1991), is an entrepreneurial phase, entrepreneurs develop their ideas. Afterward, at the real start-up stage of a firm, an entrepreneur starts planning the business in detail, which includes working on financing the business, setting up business deals and agreements, etc' (Bridge, O'Neill, and Cromie 1998; Gibb and Ritchie 1982). At this business start-up stage, tasks such as finding initial capital, suitable site for the new firm, selecting supplier and buyers must be completed. After the business starts its operation, firms not only seek raw material, markets and various other supports, but also try to minimize transaction costs as well as risks of failure. In this regard, Butler and Hansen (1991) identified a model to evaluate different types of networks, their role and impact on different phases of a firm development. According to their model, three phases of business development have been identified: namely (1) entrepreneurial phase, (2) business start-up phase, and (3) on-going business phase. Three different types of networks are shown to run parallel to the three phases of a firm development. They are social networks, business-focused networks, and inter-firm strategic networks respectively. Relatively similar identification has been made by Birley and Cromie in 1988. According to Birley and Cromie (1988), entrepreneurial network development moves from start-up networks, where social network relationships predominate, to a growing network, where professional network relationships predominate. Social network includes relatives and friends with whom the entrepreneur interacts to primarily on social level, while professional network consists of all those individual relationships that are primarily concerned with business. Inter-organizational network includes supporting agencies (such as government agencies, NGOs, banks, etc) and other business firms.

The main research question for this study is, 'how does small entrepreneurs develop and utilize their networks at different entrepreneurial stages'. Applying the SNA to study and explain entrepreneurship in less developed

TABLE 2
Network of Small Entrepreneurs in Sri Lanka

Phases of Entrepreneurial Development	Phase I: Pre-start-up	Phase II: Start-up	Phase III: On-going
Influential Actors	Relatives, Friends, Former co-workers	Relatives, Friends, Former co-workers, Supporting agencies	Other firms Supporting agencies
Types of Networks	Social	Professional	Inter-firm
Relational form Density Centrality Reachability	High High High	Medium Medium Medium	Medium Low Medium/Low

countries is relatively new. Only limited studies (Chu 1996; Wong 1992) have been based on this approach in context of less developed countries. The purpose of the study is to examine the dynamic pattern of entrepreneurial network in different phases of small enterprises in Sri Lanka, a South Asian developing country, which is considered as less developed country (<http://www.worldbank.org>).

DATA

The population of this study is small business in Sri Lanka. The definition of a small firm² according to the Department of Census and Statistics in Sri Lanka is one employing 25 or fewer workers. Apart from the Department Census, various organizations³ involve different kinds of programs and activities for small business firms' development. They also use different definitions according to their purposes and programs. Some organizations provide training programs for entrepreneurial development. Some provide financial and other facilities for small business firms. In addition to these national-wide institutes, other local information was also used to identify small businesses.

In this study, 303 small business owners/entrepreneurs were interviewed. An interview schedule with questions related to the firm background, personal background of the entrepreneurs, network members relational content and form was designed and tested prior to data collection. Regarding the basic characteristics of the sample, most of the enterprises are manufacturing firms (70 percent of the respondents); 81 percent of firms are located in rural area; and 78 percent of owners are male. The number of average employees of the firms is 7; and the average lifetime of the firms is 8 years.

FINDING AND DISCUSSION

With regard to the phase of entrepreneurial development, the network actors change as indicated in

Table 1. As noted earlier the different phases include pre-start-up, start-up, and on-going phases. In the pre-start-up phase, potential entrepreneurs develop their ideas, and seek advice, initial capital, and moral support from their relatives, friends, and former co-worker, etc. These actors and relationships with them have been identified as social networks (Aldrich and Whetten 1981; Aldrich and Zimmer 1986; Brown and Butler 1993; Butler and Hansen 1991). In the second phase, entrepreneurs develop professional networks,

which include also relatives, friends, ex-co-workers, and supporting agencies (see Table 1). In developed countries, the professional networks consist of expertise such as lawyers, accountants, banks, etc. Since the nature of small enterprises in Sri Lanka is more informal, these types of professional services are mostly not necessary and thus the services are being done by relatives, friends, former co-workers, and supporting agencies such as NGOs, government officers. In the on-going phase, inter-firm networks predominate. The networks include other firms (small and large) and supporting agencies. This study considers banks as supporting agencies because banks provide various types of supporting services including finance to small scale enterprise sector in Sri Lanka.

With regard to relational forms of entrepreneurial networks, the study measured network density, centrality and reachability. We found that in pre-start-up phase where the social networks are predominant, the relational forms tended to be high among the small enterprises in Sri Lanka. In the start-up phase, the relational form is medium on density, centrality, and reachability. However, in the on-going phase, the relational form is different from the previous two phases: density is medium, centrality is low, and reachability is recorded in between medium and low (see Table 2)

It is very common for small entrepreneurs in Sri Lanka to follow such as evolutionary network model to meet the different needs of different phases of entrepreneurship. As noted above, an entrepreneurial network consists of three types of actors, namely social, professional and organizational. In entrepreneurial phase, a larger part of entrepreneurial networks comprises of social actors such as relatives, friends. Accordingly, the study found that entrepreneurs discuss with their relatives, friends

and formal co-workers before they practically start their business. These discussions help for new entrepreneurs to identify business ideas, to find initial capital and a site for a business. Besides, these discussions also encourage new entrepreneurs. This is the stage where business ideas are developed and social support is sought (Bridge O'Neill, and Cromie 1998; Butler and Hansen 1991; Larson and Starr 1993). Professional and organizational actors play very small role in this phase when compared to other two phases (see Figure 1).

In literature, we found that professional actors play a major role in creating a new business (Birley and Cromie 1988, Butler and Hansen 1991, Chu 1996), but this study identifies that social actors still are important for small entrepreneurs in Sri Lanka. The reason is that, as argued above, small entrepreneurs do not look for such professional services since government regulations such as registration, taxation, etc mostly do not affect these small firms. Our study further found that if those services are necessary, small entrepreneurs consult their relatives, friends and ex-co-workers.

Finally, in on-going phase, other organizations including other small and large business firms are the major and important components of entrepreneurial networks. Theoretically, social actors play little role in this phase. Nevertheless, as shown in Figure 1, social actors still play a major and important role in Sri Lanka. We found that small firms in Sri Lanka are often looking for supports from relatives and friends rather than from formal organizations. These small enterprises look for customers through the social actors. They find and start sub-contracting works through their social actors. Even if they need some support from formal organizations, first they look for someone (friends or relatives) who is familiar to those organizations. It could be due to the existing bureaucratic system in Sri Lanka.

As mention above, networks are not static. They are constantly changing and evolving, and a major challenge for the entrepreneurial firm becomes the handling of changing criticalities arising from growth: indirect or new links may become more centrally important; other, previously critical links, become less so. As the patterns of importance change, the entrepreneur faces the need to reshape the network in order to improve its efficiency and effectiveness. Growth, in other words, is frequently associated with evolving criticalities and thus raises, again, the managerial problem of handling network overload whilst gaining diversity; but, this time, with the complication of having to reshape the network to align it with new requirements.

CONCLUSION AND IMPLICATIONS

Network linkages are very significant for a collective society. The social network approach can be used to explain entrepreneurship in such a collectivist society. As Sri Lanka is a collectivist and group-dominated country, entrepreneurs use their social network relationships for the success of their business. Particularly small entrepreneurs obtain adequate and timely support as well as resources through their network members. In this study, it is however found that during different phases of entrepreneurship, different network members become more important. The study therefore suggests that combinations of network strategies are more appropriate when promoting small enterprises. For instance, in pre-business start-up and start-up phases, social network members are more important while inter-organizational network members, particularly inter-firm strategic networks are more significant for on-going business phase. The findings of the study are consistent with past studies (Butler and Hansen 1991, Birley and Cromie 1988, Chu 1996). Nevertheless, the importance of professional network members is not significant among the small entrepreneurs in Sri Lanka. It is basically due to the informality of the small enterprises. The role of the

professional network is mostly done by relative and friends. Another interesting finding of the study is that social network members play a very important role even during on-going business phases. One of the reasons is that corruption, fraud, favoritism and nepotism are rather common in Sri Lanka. These things allow a few members of society to acquire unfair profits and benefits by bribing officials. Personal trust and loyalty are also important concepts in such a society. The study found that the social network relationships are particularly very important when small entrepreneurs dealt with sub-contracting businesses. In this regard, business deals come after social relationships; thus social bonds become business bonds. In conclusion, it is worth reiterating the crucial importance of social network member in each phase of a small firm in Sri Lanka, though the members of entrepreneurial networks change over firm's life cycle.

However, since the social, cultural, and economic structures differ country by country, the small firms as well as the nature of entrepreneurial networks in Sri Lanka are not identical with the small firms and the entrepreneurial networks in other countries. Hence, more comparative studies are also suggested in the area of small entrepreneurs' networks in less developed countries in order to understand these socio-cultural and economic variations of small firms and entrepreneurial networks. The study also suggests that further theoretical insights are needed in order to get a better understanding of the dynamic pattern of entrepreneurial networks and their impact on business development process.

Footnotes

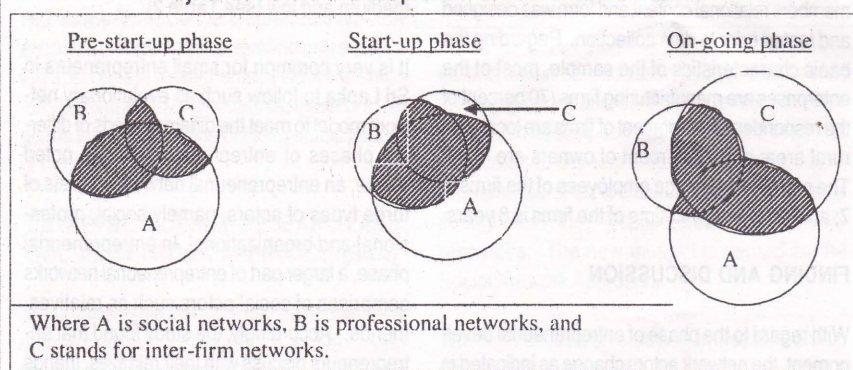
¹ However, the boundary between the entrepreneurial and the start-up phase is relative unclear. Greve (1995) suggests that the entrepreneurial phase is *motivation phase* where the entrepreneur is thinking of starting a business. Butler and Hansen (1991) identified it as *opportunity identification phase*. Then the start-up phase is defined as a time when practical steps are taken to start a business.

² However, the definition of small firms was a problematic issue particularly in commerce and service sectors.

³ These organizations include government agencies, non-governmental organizations, and private firms. For example, Department of Small Industries (DSI), Industrial Development Board (IDB), National Craft Council (NCC), National Design Center (NDC), Sri Lanka Handicrafts Board (SLHB), National Youth Co-operatives (NYSCO), Export Development Board (EDB), Development Finance Institutions (DFIs), SANASA, Sarvodaya, Women's Development Center, etc.

FIGURE 1

Dynamic Nature of Entrepreneurial Networks in Sri Lanka



The Impact of Governance Related to Training of Youth as a Resource Base for National Productivity

Governance is a value based decision making process demanding high standards of integrity from all concerned stakeholders relating to life of people in all social and economic strata. State Organisations, Corporate/Private sector and Civil Society are the fundamental segments, which shares the responsibility of governance in a country.

The author perceives Civil Society as the productive base of a country and therefore, the impact of good governance has direct relevance to its high efficiency, integrity and productivity. Productivity at a National level depends on getting the maximum possible output from the inherent qualities and capabilities of the society and is best addressed at the level of the youth populace of a country.

While the State creates a conducive political, economic and legal environment, the corporate sector (public and private) generates jobs and income for the Civil Society, which in turn facilitates political and social interaction and generates economic activities. The interaction of the above stakeholders in a high productive social environment is the success to economic stability and national development.

To sustain this productive base, good governance should also take into consideration the global market environment and the sustainability of the local natural environment, which if adversely disturbed has detrimental effects on the future productivity (although the other segments retain the ability to support productivity).

In countries like Sri Lanka, there is a vast amount of human resources to be tapped by efficiently harnessing the skills and talents of the youth, which is a National Asset. Currently this segment of the population does not contribute to maximizing productivity due to neglect and deficiency in guidance towards appropriate career paths. Institutions such as the Organization of Professional Associations has undertaken a National Career Guidance Program to fulfill this lacuna and increase productivity at a national level by maximizing output through efficient career guidance. It has now become the responsibility of the state and the corporate sector, as they are the ultimate beneficiaries from a highly productive youth force, which is the foundation to a Civil Society.

The primary and secondary education sector has the responsibility of incorporating, facilitating and comprehensively addressing parental and pupil guidance through good governance and state policy, to direct the youth towards appropriate careers, better suited to the individual, to maximize output and thereby effect better productivity from the populace when they (the youth) reach adulthood.

Key Words:- Governance; Productivity; Civil Society; Productive Base; Youth force; Career Guidance; Maximize output.

The paper deals with a particular niche in the Corporate and Private Sector (which forms the civil society of a country) and is based on the premise that, "civil society is the productive base of a country", and should not be treated as a vast residual category of all non-state organizations either formal or informal. This perception by the author is based on the view that a highly educated society with high innovative and technical skills, managed and governed efficiently, is highly productive in all

spheres and hence leads to high income generation and thereby stability of the country. The opposite is unrest due to low income as a result of low productivity, as shown in the following diagram (Fig. 1), which progressively goes into a vicious cycle of decline of social values, responsibility and degeneration of the society.

Dr Paikiasothy Sarawanamuttu (Executive Di-

Prof. Lal Balasuriya *

rector, Center for Policy Alternatives, Sri Lanka) states that, quote - (1) " There is a rich theoretical literature on the concept of civil society, ranging from the descriptive to the explicitly and self consciously ideological". quote - (2) " Whilst civil society groups in this formulation do not seek the capture of state power for themselves, they are stakeholders in the process of defining its structure, checking and balancing its exercise and in securing agreement on the rules of competition". (OPA, 2001)

1.1 Governance and Productive Base

In the context of productivity, good governance is value based, demanding high integrity from those of all social and economic strata. The State, Corporate (state and private) and Civil Society, forms the three main interactive segments responsible for governance in a country. (Fig. 2)

While the state creates the political, economic and legal environment, the corporate sector generates jobs and income and the civil society facilitates political and social interaction. This is the classic model generally accepted as the partnership to achieve good governance. However, in a democracy, the state and the corporate sector draws it personnel and is an extension of the civil society, determining the stakeholders in the interaction. Civil society comprises of all individuals of a country. Simultaneously, some individuals of this society, due

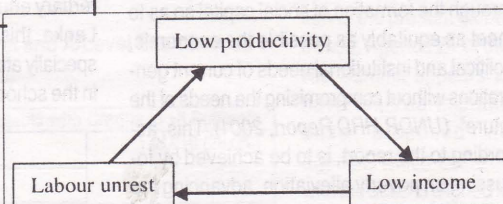


Fig 1. Social Degeneration.

to ownership, training, education, employment and individual interests, become members of the corporate and state sector and the government. Hence the authors perception of the civil

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society (state and corporate sector) being one entity, forming the productive base of a country.

1.2 Governance and the Economy

The Sri Lankan economy, which has entered a phase of decline over the past years, appear to be in a crisis not only due to the effects of globalization, but also as a result of a lack of accountability, decline in ethical standards, deviation from traditional moral values and thereby a breakdown of governance in general, which has set in motion a vicious cycle, adversely impacting on the efficiency of state, private and civil functions. It is the result of five decades of cumulative neglect and deterioration, gathering momentum over the years. Numerous efforts to reverse this process through reforms were negated by vested interests and political indifference. This crisis has been identified by the OPA as the "Crisis of Governance, the Key Issues". (OPA.2001)

While accepting the fact that the above status requires fundamental reforms, this study does not attempt to find solutions to this crisis, which is being addressed by the OPA, suggesting remedial measures to safeguard democracy through reforms in the Legislature, the Executive and the Judiciary, which is beyond the scope of this paper. Instead it attempts to target efficiency in productivity by addressing a **niche in the education system**, which could be identified as partly the responsibility of the state sector and partly the private sector, to bring about long term reforms to improve the productivity and the better utilization of the potential knowledge and skills of the youth in the country.

1.3 Governance and Sustainable Development

Good Governance and Sustainable Human Development (SHD) should go hand in hand to eliminate poverty. Sustainable Human Development, according to the UNDP, quote, "is the increasing of peoples choices and capabilities through the formation of social capital so as to meet as equitably as possible the economic, political and institutional needs of current generations without compromising the needs of the future". (UNDP. HRD Report, 2001). This, according to the report, is to be achieved by focussing on poverty alleviation, advancing the position of women in society, **creating opportunities for productive employment** and protection and regenerating the environment.

1.4 Governance and Education

In the age of technological growth and innova-

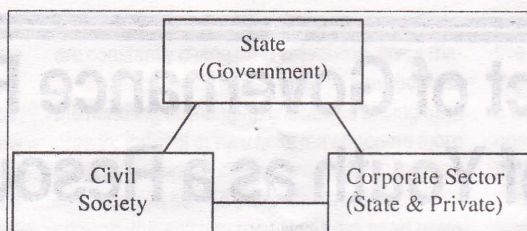


Fig 2. Key Segments of Governance.

tion, it is the responsibility of the government to invest in the development and diversification of such skills within a society. Rethinking and in some instances overhauling educational policies and redirecting funds towards appropriate sectors in education and skills development desires skillful management of educational plans, which may not be an easy task and politically unpopular. For example, in Sri Lanka the university places for arts streams far exceeds the National requirements, but affecting a change needs a complete overhaul in the secondary schools system, where there is a lack of facilities and personnel for teaching science subjects in most schools, specially in the provinces. **The statistics indicate that there are only 588 out of about 2,426 schools teaching up to Advance Level in the country, offering science teaching at Advance Level (Exams Dept, 1998).** The School census (chart below) shows that the status in year 2000 still remains the same. Consequently, 4,323 places out of a total of 11,805 places are offered to Arts graduates in the Sri Lankan universities when compared to the other streams. (Uni. Stats. 2000).

This is clear example of the need to overhaul educational budgets, resource distribution and teacher recruitment policies in schools if the country is to introduce or increase 'technical skills training' in secondary and tertiary educational system. **With better resources and mandatory enrolment, the quality and orientation of education at every grade could be improved by introduction of career guidance at appropriate levels to produce the desired balance in the output.** It is a known phenomenon that low quality in secondary schools leads to low completion in secondary schools and low enrolment in tertiary education and skills development. In Sri Lanka, this low out put of technological skills is specially attributed to inadequate science teaching in the schools, which will be detrimental to devel-

opment of overall technological skills in the future working population.

This redirection is seen in some advanced economies, where reforms have given new emphasis and better options to the people, based on employment patterns. (UNDP. HRD Report, 2001) Quote, "Students are encouraged to keep their education and career options open. In Denmark, general courses in vocational programs have opened new pathways to higher education. In the United States, examination system allows students to choose subjects from both general and vocational programs. In Finland, the government had raised the status of vocational education and increased public resources for on-the-job learning. Since 1999, all three year vocational courses have had to offer six months work experience to every student."

For good governance of the education system, orientation and context is as important as resource allocation and management. Public investment in education and skills development should be geared to yield high returns to society as a whole. In Sri Lanka, public spending in education increased from 2.7% of GNP (1985-87) to 3.4% of GNP (1995-97) (UNDP. HRD Report, 2001, p196). However, the number admitted to the various streams in the universities remain more or less the same, indicating that the increase in expenditure may have been to compensate the increase of population or cost of living and not directed towards rectifying the imbalance between the arts and other educational streams.

2. Preliminary Assessment of Governance Related to the Study

Like in all other sectors the education system too in Sri Lanka has suffered its drawback due to misguided policies and bad management, which has created vast disparities in educational standards, specifically in the underprivileged areas in the provinces. The ill effects of inefficient budgeting and misdirected governance has deprived certain schools of needed funds or inadequate funds for developing curricula and obtaining necessary teachers for training of pupils in fields specially in the science streams, appropriate to the job markets.

Functioning Schools		
	Number	Percentage
Total	9,972	100
1AB Schools having A/L (Science) Stream	586	5.9
1C Schools having A/L (Arts and/or Commerce) Streams only	1,863	18.7
Type 2 Schools having classes only up to grade 11	3,910	39.2
Type 3 Schools having classes only up to grade 8	3,613	36.2

Statistical Branch, Ministry of Education (2000)

Improper distribution of schools and inadequate transport facilities for traveling to schools in remote areas have played a major role in creating early drop-outs, reflected in the statistics giving alarming signals, which has the potential of leading to high unemployment, vagrancy, unsuited employment placement and poor development of skills for the future. In the past, Sri Lanka maintained a high literacy rate in the East due to the free education policy, which is now being challenged by bad governance and politicisation.

The Primary and Secondary educational system in Sri Lanka is structured so that the pupil spends 11 years (including the Grade 5 Scholarship Examination), before sitting the General Certificate of Education Ordinary Level Examination (GCE O/Level). After which another two years of study is required before the Candidate sits the General Certificate of Education Advanced Level Examination (GCE A/Level). The analysis of performance statistics for a sample year (1998) (Fig 3) reveals certain inadequacies in the system, which requires fundamental rectification if the system is to be used as the first step for the training of the young generation, which is the future productive base.

In more recent years, statistics show that lesser numbers are sitting for General Certificate examinations. This is probably due to the drop in the rate of increase in population and not due to any changes to drop-out rates or failure in examinations.

It is alarmingly evident from the above statistics that **around 365,000 youth coming out of the school system are in search of skills development and other vocational training, or in search of gainful employment.** This number further increases when the drop-out rate is considered in the primary school level before the GCE O/Level, where the youth may require training in semi skills. The balance unfortunate percentage has no option but to seek unskilled labour in the various sectors available.

It should also be noted that out of the 73,422 candidates qualifying for university entrance, only 11,805 were absorbed into the universities, **leaving 61,617 intelligent young people seeking other tertiary or higher education**, such as technical education, management training, professional skills or entry into the few private higher educational institutions mainly in the city of Colombo.

This in total terms of future productivity, this is a large waste of potential manpower and talent, which if not dealt with at an early stage, would be directed towards unskilled or semi skilled labour, which is a major drawback to the development of the country.

In Sri Lanka, due to the absence of a professional and systematic vocational guidance and counseling services to help students make knowledgeable decisions regarding their future careers, a large number of youth seeking alternate skills development and employment as mentioned above, are unaware of job opportunities, alternate career paths and training options available in the country, where this mass of youth could be directed. **The problem is worse in the rural areas where neither the parents nor the students have access to vocational guidance and counseling**, as such services are non-existent or if provided are in a basic or rudimentary stage. Even those who qualify to continue with the education system, tend to mainly aspire to follow the Arts and Humanities streams due to the lack of comprehensive guidance or due to the encouragement of their parents or teachers, who are incapable and do not have the necessary resource material to give proper guidance and direction towards career paths appropriate to the candidates' attributes. The lack of science education in many rural secondary schools, as mentioned earlier in the paper, has aggravated this problem by narrowing the options available for the young schooling majority.

The surprising fact is that there are about 700 certified vocational training centers in the country, under the umbrella of the Vocational

Training Authority. While more are desired, the majority youth seems to be unaware of such institutes and skills training centers and the potential vocational training options available for future employment.

The draft report for the "National Policy and Action Program on Post-School Training and Employment", prepared by the National Education Commission (SL), has pointed out that the school system is in need of professional and systematic vocational guidance and counseling services to inform students and help make decisions on their career paths early in their educational years, depending on their potential abilities and attributes. The need for such services could be well justified by a study of the existing educational and skill development facilities available in the country. The need for reforms in governance related to these facilities and budgetary allocations in the education system should be included in the study with comparison made with such facilities in other developing countries in the region.

The realization of the full potential of the individual to meet the challenges of the 21st Century effectively should be the primary concern in the socio-economic development process and the Sri Lanka government should allocate high priority to human resource development with good quality education and market oriented skills development.

3. Emerging Issues / Areas for Further Research

Governance in education needs to be perceived through institutional design, propagation of values related to the society and culture. In Sri Lanka, the process of globalization has brought in Western values leaning towards a Dollar conscious society, which is distinctly and historically different to the Asian traditional culture and heritage. Our society, which appears to be in the grips of this alien culture, has firstly to be diverted towards Asian values, which thrived during earlier era and co-existed with nature in a much more sustainable manner, in comparison to the present global trends.

Agenda 21 of the Rio Summit appears to have realized this and have proposed an agenda, which coincide with the actions aligned to traditional values of the Asian region.

Traditionally, the eastern family life is a close-knit social entity, with members depending on one

Fig 3. Statistics on the Performance of Candidates for the year 1998, GCE. O/Level and A/Level Examination

The statistics for 1998 are given in the following chart

1998	Total Sat	Qualified to Proceed to A/L	Passed in > 6 Subjects with Credits in >3 Subjects
O/L	509,499 (83.6%)	132,255 (26%)	145,916 (28.6%)
1998	Total Sat	Qualified for Uni. Entrance	Passed in 4 Subjects
A/L	147,851 (82.22%)	73,358 (49.62%)	72,901 (49.31%)
1998	Qualified	Admitted	
Uni. Entrance	73,422	11,805 (16.08%)	

Source: SL University Statistics 2000, UGC. Dec 2000.
Statistical Handbook, Dept of Exams. SL. 1999.

another for social support and young members submitting to peer pressure due to respect for the elders. The teacher/ pupil relationship too was derived from the same culture and even though eroded to a certain extent, still bears the vestiges in the school system. **Surely, the reform process should take these factors into consideration and derive advantage from the plus points to use the traditional value system to catalyze propose changes,** which would be much easier to implement in an eastern society having its roots compatible with such a system.

Considering that only 2% of the youth aged 20-24, actually gain admission to the universities, the issue of unemployment, career guidance and skills development has become a National issue in Sri Lanka, important enough to be highlighted in the report of the Presidential Task Force on University Education Reforms, (*Colombo 1998*). However, as in many developing countries, in Sri Lanka too the educational policy options are constrained by insufficient resources and the socio political environment in which the choices are available. Nevertheless, a number of institutions, government and non government, has taken up the challenge to address this issue and presently visible signs are there of a rudimentary system of career guidance and skills development options being given to the youth in the school system.

The paper also deals with the work done by some of these institutions in the past few years. The task in hand is immense and it is hoped that good governance in the educational system will lead to improved institutional capabilities and participatory management working at grass roots levels to develop these rudiments, together with private sector participation hopefully playing a major role.

The magnitude of the task is aggravated by inadequate demand driven programs and the lack of industry-oriented courses in technical education and vocational training institutions. There are no established schemes for validation, accreditation, competency-based training or national trade testing. There is also a need to upgrade the quality of the curricula, content, training standards, training efficiency training material, which are demand driven, competency oriented and based on market studies. These institutions are not sensitive to the skill requirements in the industry and unable to cope with the changes of progress and globalization. **The Sri Lankan family structure and the students, having been in the free economy culture of the 1950s and '60s are not fully exposed to self-entrepreneurship or busi-**

ness employment and therefore, tend to depend on the state for employment.

Under the above circumstances, the state and a number of non governmental organizations have initiated various programs to guide the Sri Lanka youth in career education and to provide counseling to direct them to suitable career paths. They attempt to give awareness to students on educational and vocational courses available in the rel-



evant institutions and inform them of job opportunities available in the private and public sector organizations. The following subsections outline some highlights of the work done in the past by selected organizations to address the crisis. It should be noted that even after about four or five years of such activity, the rectification process is still in an infantile stage, compared to similar work done in some developed countries, but has the potential of being improved and developed to a stage capable of achieving necessary targets of employment and productivity.

3.1 The Organization of Professional Associations.

The OPA Career Guidance Program started about seven years ago by launching active counseling seminars, conventions and job fairs. The following issues were highlighted at these conventions and the OPA took steps to work out further programs to address them. (*Prof Lakshman Watawala - OPA CG '97 Conclusions and Recommendations*)

- An essential prerequisite to achieve economic growth is the need to enhance productivity at national as well as enterprise level.
- A strong constrain to higher productivity has been poor work ethics and indifferent attitude to work.
- The education system and other social institutions have not been appropriately re-structured to meet the challenging demands of society.
- A work ethic cannot be developed within a short period of time.
- The government should formulate a policy and implement an action plan with the objective of developing positive work ethics suitable for national priorities.
- To consider this requirement in effecting educational reforms, there-by training and re-orienting the student population in regard to the importance of developing appropriate work and attitudes in their future careers.
- The political leaders to establish and maintain high standard of behavior. Examples could be derived from the success story of Singapore.
- To restructure and re-organize the public sector by establishing desired standards of efficiency.
- Leaders in business and industry, who demand positive work ethics and attitudes at work, should set an example by adhering to fundamentals of business ethics themselves.
- At enterprise level, many efforts have been made by certain organizations to develop positive work ethics and attitudes in their work places. Research on motivation has revealed that the employee

could be encouraged to adhere to desired work norms such as efficiency, honesty and integrity, dedication and loyalty provided they sincerely feel that adaptation of such attitudes would accrue reciprocal benefits to them. Rewards are not necessarily financial, but could be non-financial such as job satisfaction, a conducive work environment, cordial relationships, involvement of employees in the organizational process, etc.

It was noted that Sri Lanka still looks down on certain types of work (vocations), therefore to restore dignity of labour, certain trade and operations needed to be institutionalized, and trade standards maintained. Promoting certification and licensing of different occupations could lead to upgrading of such exceptions making them attractive.

An important fact that emerged from the deliberations and interviews conducted by the OPA among participating institutions and students is that, while the basic problem was the lack

of awareness in general, the rural schools and the parents in those areas were totally neglected and had no opportunity or access to such information or guidance.

As a result, after the year 1997, the OPA embarked on a program to widen the effective coverage of their activity, by dissemination of information and creating awareness on Career Guidance across the whole country. The aim was to install a permanent, self-motivated, **"National Network for Career Guidance"**, which was conceptualized by the author and promoted by the OPA, for dissemination of information and Career Guidance throughout the country. This was to be achieved by setting up resource centers for gathering and storing of information, with district centers and schools as the points for dissemination of information and for providing career guidance and counseling by trained staff.

Over the past years, the OPA collaborated with the National Youth Services Council (NYSC) to conduct a Career Guidance week each year. The mass media, which was the quickest and most effective vehicle for this purpose of maximum coverage, was used to give coverage, publicity, and create awareness among the public. Training of district officers of the NYSC and teachers from selected outstation schools was a part of the joint program. A number of organizations and their branch offices were earmarked as suitable resource centers and presently the OPA is collectively strengthening the network to optimize its efficiency and coverage. In all such activities the OPA Careers Chart (an interactive chart to guide students into appropriate Career Paths depending on their individual attributes) was used extensively and distributed free of charge to teachers and students in all provinces.

The network is based on the premise that over the past years, Governmental and Non-governmental training institutions, Youth Councils and Professional bodies have collected and documented a vast amount of information relevant to career guidance. These range from professional careers to vocational careers and skills development. Simultaneously, a number of institutions have been set up offering educational opportunities for the youth, ranging from higher education to vocational training and skills development. However, the network needed for exchange of information was not available to the stakeholders.

In the recent past career guidance has been targeted as an urgent requirement in the country to maximize the potential of the youth by offering them the choice to select their careers, depending on their educational abilities and skills.

The National Youth Services Council, Maharagama and the Organization of Professional Association, have played a leading role in promoting career guidance at a national level. The Ministry of Education has embarked on an intensive program to train selected teachers in provincial schools to take up career guidance in their respective schools.

Guiding and counseling a young boy or girl in the teens requires a skill, which ranges from human psychology to understanding the potential of the individual, coupled with knowledge of available skills development programs in the country. In simplified terms, it requires **matching of human potential to available training and skills development.**

Sri Lanka is fast maturing in the area of career guidance and has arrived at a stage where training institutions have been established and the documented information on careers is available to the public. Facilitators such as the NYSC, OPA, Career Guidance Units of the Vocational Training Authority, and other training institutions are also functioning well.

However, there is a need for a self-reliant, self-operational, permanent system at a national level for dissemination of information and exchange of queries, to maximize the efficiency of the available resources for career guidance. In this respect, the OPA has proposed the concept of a "National Network for Career Guidance (NNCG)". Firstly, it will be a virtual network for collecting data on careers and a vehicle for dissemination of information. Secondly (and more importantly) a communication network for career guidance officers and teachers to seek information from relevant training organization and skills development institutions, when actively participating in guidance work at school level, or with the unemployed youth. The conceptual diagram for the NNCG is illustrated in the **Diagram 1**. The virtual network will be made operational by **compiling a classified directory of all stakeholders in Sri Lanka involved in education, training, conducting career guidance work and generating career information.**

Since the NYSC Maharagama, operates at a national level and further its mandated target includes all youth, school students, school leavers and unemployed youth, it was envisaged that the NYSC Career Guidance Unit would be the focal point and in the best position to gather data for the directory. The NYSC has compiled similar lists in the past and has used them for their career guidance promotional work. Therefore, this proposed directory for the network will be an extension to their existing database, but formatted according to the proposed classification.

Other organizations where Career Guidance and training of youth is being done are listed below for future study. These organizations have set up their own Career Guidance Units and have collaborated on many occasions to conduct joint programs, which is seen as a healthy situation for potential growth of the activities at a national level.

- National Youth Services Council, Maharagama. (Including District Centers)
- The University Grants Commission. (Including Universities)
- The Vocational Training Authority.
- Some private schools and societies.

3.2 National Policy and Action Program on Post-School Training and Employment

The policy paper (which is at a **draft stage**) prepared by an Inter-Ministerial Committee has taken the following approach to policy formulation towards the commitment of the government on developing a formalized system of post-school training and vocational guidance, with adequate resources to cater to the needs of the country.

It aims to develop an integrated approach combining public and private sector institutions, functioning together to handle affairs related to education and training of youth under a National policy framework. A time frame of six years, with two yearly reviews are being proposed for implementation of the program with realistic labour market surveys, relating to individual personalities, available job markets and optional training paths.

The schools are also targeted as points for reforms towards creating apprenticeship and non-formal technical and vocational education. Students will be given short-term exposure to industry through internship and visits to workplaces and through presentations and discussions by industrialists and managers at school level.

Diversification of existing vocational and technical training programs to provide better choice to youth on available job opportunities are proposed with the updating of curricular of the courses. Establishment of vocational and Career Guidance units at national level and in schools are proposed, with adequate resources and **full time career guidance teachers being appointed to each school** with access to classified directories of training institutions and personnel, to provide necessary information contact.

The proposal for the 'National Network for Career Guidance' has been accepted by the policy paper as a potential tool for implementation of

National Network for Career Guidance (NNCG)

A Virtual Network for Collection and Distribution of Resource Material

IMPLEMENTATION.

Annex 1

The Network will function through a categorised directory comprising of 3 Groups: (1) Career guidance teachers at schools (2) Career centers / Units. (3) Training Institutions / training courses with entry requirements. The directory will list the contact persons, phone numbers and addresses. The NYSC will be the main coordinator for distribution of information.

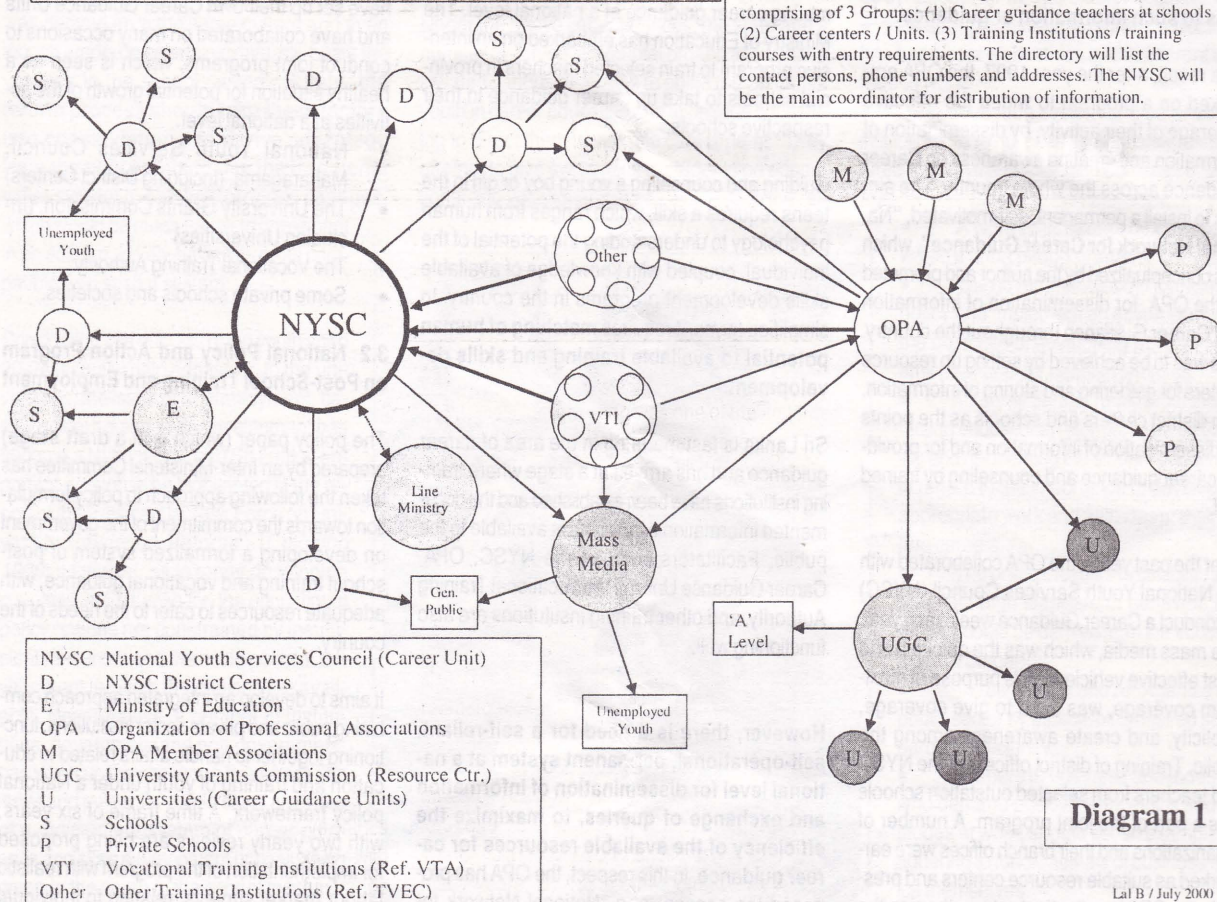


Diagram 1

Lal B / July 2000

the policy. Fifty flagship career guidance centers, under the ADB funded Skills Development Project (SDP) and with career guidance centers at 1000 schools, are initially proposed as a first step for this purpose provided with trained staff to begin career guidance in schools, ideally from Grade 10 level.

Development of a computerized questionnaire system to process student profiles and determine career paths is also proposed in the policy paper.

Finally, a very important highlight in the draft policy paper in terms of reforms is the proposal for establishment of a Bureau of School Guidance, Training and Employment (BSGTE) to integrate the work of the career guidance units and match available training opportunities and pathways to jobs with student profiles. This will be a special Bureau with district offices, resources and permanent cadre with facilities such as computerized data bases as a focal point for school leavers and job seekers to find placements.

The Bureau will function by keeping track of movements in job markets and training opportunities. In the short term with projections over a period of two to three years by tapping into various sources of information, mainly from advertisements in the media and labour journals.

4 Conclusion

It is hoped that further studies could be carried out on the work done by these institutions and the implementation of the proposed policies could be set in motion. The follow up program should also serve as a tool for monitoring the progress of the activities envisaged to be put into operation.

In conclusion, the primary concern of the educational policy of the country should be the realization of the full potential of the individual to meet the challenges of the 21st Century effectively. High priority should be allocated in the socio-economic development process, to Human Resource Development with good quality education and market oriented skills development through Career Guidance.

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Reformation of Labour Laws in a Liberalized Economy with Special Reference to Sri Lanka*

The subject of Labour Law Reforms has always been controversial with national implications specially in view of the conflict of interests of the parties involved. Being a HR Practitioner, inevitably I would view this subject in the context of Industrial Relations & national priorities. It is believed that any law enacted in a democratic country should satisfy the aspirations of the stakeholders and serve the greater interests of the community. In this context, it should meet the requirements of the three social partners - Employers, Employees and the State. To quote Bentham a great political philosopher it should be geared for the greatest good of the greatest number. Labour laws have had the destructive effect of nullifying the very objective for which they are intended. It is meant to safeguard and maintain minimum standard in the labour market. However the labour laws could discourage the employers who are law-abiding and desirous of expanding their business operations.

BACKGROUND

The origin of Labour Law in Sri Lanka could be traced to mid 19th century during which period a series of labour legislation was promulgated commencing Ordinance No. 5 of 1841 to promote and encourage plantation labour and to improve their living conditions. Since then plethora of labour laws have been enacted to meet the requirements of that time in the sphere of Industrial Relations. Sri Lanka moved from a centrally planned economy to a market economy in 1977. An analysis of the labour laws enacted prior to 1977, specially during the period of closed economy 1956 - 1977 reveals following salient features:

- © Weighted towards high protection in favour employees
- © Provided irrational job security to employees thus encouraging unproductive employees.
- © Laws are enacted on political consideration.
- © Conditions and facilities granted can be increased but not easily reduced.
- © Implementation of labour laws entailed financial burden on the employer.

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Even though the economy was gradually deregulated since 1977, adequate initiatives have not been taken to effect changes in the of labour laws in order to facilitate and optimise the benefits of the Market Economy. This has created a contradictory situation in which at present 75 % of the Sri Lankan Economy is managed by the private sector whereas the labour laws have not suitably modified or changed to meet the new demands of the market economy. The successive governments have declared that the private sector is the engine of growth. However, if a conducive business environment is not created the effective operation of the private sector could be impeded, thus resulting in total breakdown the Economy. In brief the rigidity of labour laws and the restriction on the labour market discouraged investment and had adverse impact on the expansion of employment, productivity and economic growth of the country.

THE NATURE OF CURRENT LABOUR LAWS

In order to understand the nature of the current labour laws, I would refer and analyze briefly 3 pieces of important labour legislations applicable currently and this would provide an understanding of the present position.

a) Termination of Employment (Special Provision) Act. 1971

This act requires the employer to obtain prior written permission from the Commissioner General of Labour for any form of non-disciplinary termination including the closure of Business.

This act was enacted in 1970's in order to prevent retrenchment and lay off of employees in the private sector in an economic environment where there were severe restrictions on imports and foreign exchange resulting in closure of enterprises. With the emergence of an open economy in 1977, at present these reasons are not relevant and valid but still law continuous to be unchanged.

There are several obnoxious features in this legislation -

- © The Commissioner General does not need to provide reasons, which is in violation of principles of natural justice.
- © The employer requires to pay wages until the Commissioner General decides on the issue. Then, need to lay off may not exist.
- © Restructuring of Business is treated differently from a closure of Business and more generous compensation is provided thus imposing further financial burden.
- © In most occasions, the quantum of compensation ordered were beyond the capacity of the employer. It would not only affect the liquidity of the enterprise but also the future of the employees who continue in employment. Some times it has been economical to retain the services of employees rather than payment of compensation.
- © This covered all situations of non-disciplinary nature even incompetence, ill health, absenteeism thus encouraging low productivity.
- © It is ironical that final decision regarding rationalizing or the closure of the business is in the hands of the Commissioner General. This restricts the employers' ability to rationalize or restructure a business and also a disincentive to investment in labour intensive enterprises.
- © Amendment No. 51 of 1988 to the Act stipulates the requirement of obtaining permission of the Commissioner to terminate an employee who had worked more than 180 days within a period of 12 months.

This act certainly served a purpose in an era of closed economy. In a market economy the provisions of this act is counter productive and a definite disincentive to investment. It is agreed that if an employer wishes to lay off of or retrench a workman, he should be made to pay a reasonable quantum of compensation without forcing him to adopt a rigorous process as prescribed by this act in seeking permission for termination of employment. Under Industrial Dispute act in India, such provision has been made available. If the employer is unable to pay such compensation, an application can be made to the Commissioner for determination.

* (A paper presented at the National Summit 2003 on "The Reformation of Labour Laws in the Liberalized Economy" organized by The National Institute of Personnel Management, India on 26-27 February 2003 in Calcutta.)

b) Industrial Dispute Act

This Act provides a process to prevent and settle Industrial disputes through conciliation, arbitration, collective bargaining/agreement and a system of labour tribunals. It has also provided a procedure to be followed in redundancy or retrenchment but has become ineffective due to the introduction of the Termination of Employment (special provision) Act. The significance of this act is that it provides a system to resolve Industrial Disputes and to regulate Industrial Relations but ill defined procedures connected thereto have minimized its beneficial effects to the employer as well as employee.

- © Officials of the Labour Department who are entrusted with the responsibility of conciliation need a greater degree of expertise and they tend to reach compromise at the expense of the Employer.
- © Appointment of arbitrators is not done on a professional basis.
- © On many occasions, Unions have violated the provisions of the collective agreements. Even though there is a provision to take legal action for such violation, the state has failed to act effectively. Unions prefer to achieve their goals through use of strength in preference to collective bargaining. This has downgraded the value of collective bargaining in the eyes of the employer.
- © System of labour tribunals has not realized the desired objectives. This process has been slow and legalistic and the number of cases pending has increased thus causing delays in dispensing of Justice.
- © The Labour tribunals have been provided with power to reinstate dismissed employees which is an infringement on the right of the Employer. It is felt that the Employer should not be forced to take a person who does not enjoy his confidence but provide an option to pay compensation in lieu.
- © In December 1999, few days prior to the General Election, Industrial Dispute act was amended by the former Government to provide recognition to the Union by the Employer where they command 40% of membership among employees. This was done without adequate consultation with the Employer organizations. The Employers' Federation of Ceylon representing the majority of employers were never against such move but they requested a provision to de-recognize the unions adopting unfair labour practices.

c) Wages Board Ordinance

The wages board ordinance No. 27 of 1941 makes provisions relating to all Trades in regards to the payment of wages, fixing of wage

period, overtime, holidays, maintenance of wages records and their preservation and penalty for non compliance.

- © This act covers around 40 Trades and some of the provisions adversely affect productivity. For example, Sunday is a fixed week holiday for most of the trades. If employed on a Sunday the rate payable is 1 1/2 times the wage and another holiday in lieu should be given. As this holiday cannot be rostered either employee will be entitled to overtime or alternatively extra workers need be employed.
- © Majority of wages Boards had fixed time-rated wages. In certain Trades, wages are adjusted based on cost of living. On certain occasions, decisions have been taken to increase salaries for political consideration and/or due to union pressure. Such actions breed inefficiency and adversely affect productivity. Consequential high labour cost unrelated to productivity would make the product or service uncompetitive and also desists the investors from investment in labour - intensive enterprises.
- © Sec. 59 A of the Wages Board Ordinance makes the "Principal" Employer liable for non-payment of Wages, provident fund and other dues in relation to the employees of a contractor providing service to the "Principal" Employer. Such legal provisions are certainly not encouraging signals for investors.

IMPACT OF LABOUR LAWS ON INDUSTRIAL RELATIONS AND THE ECONOMY

I have reviewed only three important pieces of legislation. The nature of this legislation clearly confirms even though the socio-economic environment has changed, the labour law has not been suitably modified or reformed to meet the challenges of the market economy.

These characteristics prevail in other labour legislation currently in force. In brief -

- © The labour laws are heavily weighted in favour of the employees. This has adversely affected the productivity and as a result enterprises would become less competitive.
- © The rigidity of labour laws and its over protective nature in favour of employees have imposed severe constraints on the employer. This restricts the business activity, increases the cost and discourages full employment.
- © This has an adverse impact on the economic growth which is a sine-quo-non to find solutions to poverty alleviation and unemployment which are prevalent in Sri Lanka and South Asian countries. The economic growth during the last decade was around 4% - 5%, whereas at least growth of 8% is required to meet the socio-economic demands of the emerging society.
- © The rigidity of labour laws has given a wrong

sense of confidence to the employees and the unions. This has had a positive as well as negative impact on industrial relations. Whilst it provided strength to the employees and corrected the imbalance prevailed between Employer and the Employee, ironically this strength is being used by the unproductive employees to perpetuate inefficiency. Even in such situations, it is not possible to terminate the services of inefficient employees.

- © This situation discourages the employers to comply with the law and inducing them to find ways and means to evade the effect of the law.
- © Entrepreneurs not being interested in investing in labour intensive businesses, they tend to adopt automation or other means to reduce the number of employees involved.

It is a dilemma that governments in power since independence specially after the advent of the market economy have been oblivious to the reality of this situation. This lack of concern by the government makes the independent analyst confused and astonished. Employer organizations, Trade chambers have made numerous representations emphasizing the need for labour law reforms. The response has been lukewarm and of inconsistent nature. The main reason for this lackadaisical attitude is high dependence of political parties on working population to win elections. No party is prepared to antagonize "the vote bank" for the greater interest of the nation. They could certainly take a lesson from the Singaporean leader Lee-Kuan-Yew who was very firm with the trade union leader, Mr. Suppiah who threatened the government with strike action in early 1967. He says in his autobiography "The Government could not allow any union to jeopardize Singapore's survival" That I consider was the starting point of the establishment of Modern Singapore.

APPROACH OF THE PRESENT GOVERNMENT

In 1979 the government produced a White Paper on Employment recommending reforms in the Industrial Relations System but failed to proceed beyond. The People's Alliance Government in order to keep their promises to the working class during the General Election 1994 made an attempt to enact "the Workers Charter" which was meant to strengthen further the protection cover of the workers. Due to the protest from the business community this was abandoned. The most recent attempt is the Draft National Employment policy for Sri Lanka formulated by the present United National Front Government with the overall vision for Sri Lanka "to be a provider of a globally employable, competi-

tive Human Capital" This policy paper consists of 7 initiatives and under the initiative No. 6: captioned "Partnership Re-aligned" following has been stated:

"The weak tripartite partnership among the government, employees and trade unions has been a deterrent to Sri Lanka economic growth and social progress in the past. The rigidities of our labour relations framework (our labour law framework remained essentially what is prior to 1977) and the adversarial approach of Industrial Relations Systems have generally been looked upon as negative factors in our labour market. These factors have had an adverse impact on the attraction of employment - oriented investments both foreign and local and the productivity growth of our enterprises".

As Key Strategies, following has been indicated -

"Any meaningful steps to promote productive and stable employment in Sri Lanka needs to **NECESSARILY ADDRESS THE LABOUR LAW** regulatory framework towards reform to":

- * Create an environment that is more conducive to employment oriented investment
- * Facilitate the optimum utilization of manpower

While giving due regard to internationally acclaimed labour standards

This clearly indicates the Government of Sri Lanka is fully aware of and accepted the urgent need to reform the labour laws.

The important question is,

Would the political masters have the courage of conviction to act accordingly? I do not want to be a prophet of doom but sincerely hope and pray that the tragic past would not be repeated.

RECENT LABOUR LAW REFORMS

In pursuance of the government policy enumerated above, on 07th January 2003 the Honorable Minister of Employment of Labour Mr. Mahinda Samarasinghe, presented to Parliament 3 Bills for adoption. The fundamental features of three Bills are -

A. Industrial Dispute (Hearing and Determination of Procedure) (Special Provisions) Bills

(i.) *Proceedings before Labour Tribunals* Labour Tribunal will be required to make their final orders not later than 4 months from the date of applications. Time limits have been stipulated for notices to be sent to relevant parties and

statements to be filed. To proceed with inquiries in the absence without sufficient cause of, a party and to hear applications from day to day until their conclusion. Not to permit any postponement of hearings except for exceptional reasons. Appeals against an order of LT to be made within 21 days excluding holidays. Appeals to be heard & decided within 4 months. The 04 months time limit will apply to the Supreme Court as well.

(ii.) *Proceeding under the Termination of Employment of workmen (Special provision) Act.* The Commissioner General of Labour to make order within 01 month from the date of application or complaint.

(iii.) *Proceeding before Arbitration (Voluntary or Compulsory)*

To make the order within one (1) month

(iv.) *Determination of Pending Action*

Pending inquiries before L.T. and courts of appeal are to be completed within 04 months. Pending application under the termination act and before arbitrators and Industrial Court are to be concluded within 01 month and 2 months respectively.

B. Industrial Dispute Act Amendment Bill

To reduce the time period within which an application to be made to the Labour Tribunal from 06 months to 03 months.

C. Termination of Employment Workmen (Special Provision) Bill

© Compensation payable to a workman in case of a Termination to be computed in accordance with such formula as determined by the Commissioner General of Labour.

© Requires the Commissioner to afford the Workman concerned an opportunity of being heard in respect of applications made for Termination by Employers.

© Commissioner is vested with the discretion to award compensation to an employee where in his opinion the continuation of employment of such employee is prejudicial to him.

© Period within which an employee can make a complaint under this act has been reduced from 06 months to 02 months.

When these Bills were presented in the parliament, certain amendments have been made in response to the protests made by trade unions and the Opposition Party. The copies of the legislation have not been released as yet. However this gives an indication of the extent to which the government is responsive to the trade union pressure.

CONCLUSION

We urgently need to take a fresh look at our labour laws and the Industrial Relations System. Due to historical reasons, labour law in our countries is heavily weighted towards the employees. With the emergence of the market economy we need to

amend, modify and repeal laws to meet the emerging demands of the Business World. The current labour law has not changed since 1977 despite the change over to the Market Economy and the free market economy requires private sector involvement and massive private sector investments. The current labour laws are rigid and not conducive to attract investment. They impede economic growth and as a result the economic progress of the nation is retarded. Hence, the reformation of labour law has become a critical national issue which requires the urgent attention of the government and those who are concerned with the progress of our nation. The labour law should suitably reformed to facilitate the socio-economic progress and it should be periodically reviewed to meet the emerging demands of the society within the framework of the labour standards, which are suitable for developing countries.

It is of critical importance to look after the interests of all stakeholders. The interest of employees should be safeguarded by the laws of the country. In doing so, it should not adversely affect of interests of other stakeholders and the community. The collaboration of the social partners (Employers - Employees - State) is imperative to create the wealth of the nation. To achieve this objective, there should be an understanding amongst the three parties involved through consultation, consensus and compromise which would bring about a clear policy and an action plan to be implemented with a sense of urgency. A balance between social justice and economic growth would provide optimum benefits to the workers, enterprises and the nation.

In this regard, it is pertinent to quote Professor. Venkata Ratnam, a famous son of India who in his article "The role of the state in industrial relations in the era of globalization", in a ILO publication in 1997 stated - "The changing times call for radical thinking on the intent and content of labour policy. It should move away from the regulation to the facilitation; re-action to pro-action; and dispute resolution to the creation of sound industrial relations conducive to economic and social development"

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Attaining Competitive Advantage through Successful Brand Building

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The role and valuation of brands has recently become a controversial issue. Meanwhile Major brands represent significant commercial value to their owners. In addition every organization in the world try to develop successful brands to their products and services in order to obtain competitive advantage in the market place. In Sri Lankan market there are several successful brands that can be identified in different industries. These brands provide additional value to their basic products within different consumer groups. For an example Odel is reputed brand in Sri Lanka. It provides magnificent emotional value to urban youth generation and creates different culture among teenagers. Sometimes the different brands in the same industry provide their inherent value to mass customer groups. Even though In Sri Lankan biscuit market Manchee and Maliban are handling a duopoly and they provide different values to the customers i.e. Manchee perceived as innovative brands while Maliban perceived as quality products with traditional image. And also successful brands have the capacity to increase the value of tangible products. For example products like BMW cars and IBM computers are not significantly better than rivals, but customers pay attention significantly more for them. (Levitt, 1983). The main advantage of the branding is creating competitive advantage in the market. Competitive advantage is obtaining unique advantage over the competitors in the market place. However brand building is a difficult task because of it requires huge investment and it takes long time period. With this background of above matter, this paper intended to take overview of basic branding concepts and strategies for brand building in order to creating competitive advantage in the market place.

What is Branding?

This is the use of techniques by which a company, organization or product distinguishes itself from others. This is how to expresses its identity and function in its market. In modern marketing thinking branding is the process of identifying and differentiation a product or service, and establishing its uniqueness. In practice, of course, we know it's much more than that. There are considerable debates as to when the process of branding began. It has been argued (Griffiths,

1992) that Sunlight soap was one of the first true brands in the world. William Lever recognized that consumers were dissatisfied with the characteristics of unbranded soap products then available. They were consistent in quality, smelt, unpleasant, offered no consistency in weight and no packaging. Products were produced by a crude process of mixing tallow and the remnants of raw alkali in large cauldrons in to large bars, which were to be sliced into lengths by the grocer. The Sunlight brand remedied these defects. In February 1884 Lever registered the brand name and in 1885 created the formula comprising the mix of coconut and cottonseed oil, resin and tallow. The formula remained unchanged for many years. By 1890s, the company was producing nearly 40,000 tons of soap. The process followed by Lever, encapsulates some of the role of branding.

Rosser Reeves and David Ogilvy are the two gurus for primary responsible for the modern concept of branding. Reeves seek to establish the branding of the product by means of facts and reasons. Ogilvy seeks to make a product famous in its market by the impact of emotion. But in the reality branding is a mixture of these two concepts. It is a process of presenting company's product to its customers, with strong reasons for trying or buying it; seducing them into it.

A successful brand has been defined in several ways. According to de Chernatony and McDonald (1992) A successful brand is an identifiable products, service, person or place, augmented in such a way that the buyer or user perceives relevant unique added values which match their most closely. Furthermore, its success results from being able to sustain these added values in the face of fierce and dynamic competition. But in general successful

brand can be defined as name, symbol, design, or certain combinations, which identifies the 'product' of a particular organization as it is having a sustainable differential advantage. 'Differential' advantages means simply that customers have a reason for preferring that brand to competitor's brands. 'Sustainable' means an advantage that is not easy copied by competitors. Because that is the business creates barriers to entry, for example by developing and outstanding reputation or image for quality, service or reliability. Brands like IBM, Coca Cola, and Sony in the world market are successful brands because they have such sustainable differential advantage. In Sri Lankan market brand like Panadol, Anchor, Sunlight, Sirasa and Morteen can be considered as

successful brands in terms of sustainable differential advantages. Some brands are not successful because of it obtains differential advantages without sustainability.

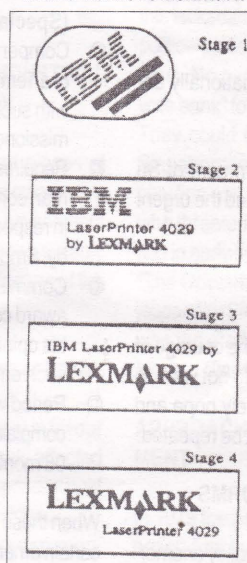
The essential elements of successful branding

Some essential elements can be identified in successful branding. These elements help to develop value and image of the brand. In the other words any successful brands in the world should be consisted of three main elements such as Identity, Differentiation, Uniqueness.

Identity – Brand should have its own identity with establishment, firmness, and unambiguous, the identity of products, service or company and its distinct personality. Brand identity

can be developed through factors like brand name, Logo, and Product quality etc. And also when company is changing its brand name or introducing new brands to its product mix, it is important to maintain its brand identity. For an example when IBM introduces their new Lexmark laser printer, they did it under differential threshold of consumers without damage their brand identity. (Figure 01)

Figure 01
Gradual change in IBM
brand Name to Lexmark



Source : Schiffman &
Kanuk
(1997)

This process consists of four main stages. In first stage the company used IBM as its parent brand name. After that gradually converted brand name as Lexmark using three evolution stages.

Differentiation – This refers to act of designing set of meaningful differences to distinguish the company's brands from competitor's brands. It can be achieved through changing product features, performance quality, style and service etc. MacDonald's has differentiated its brand through customer service. As well as IBM differentiates its brand through professionalism.

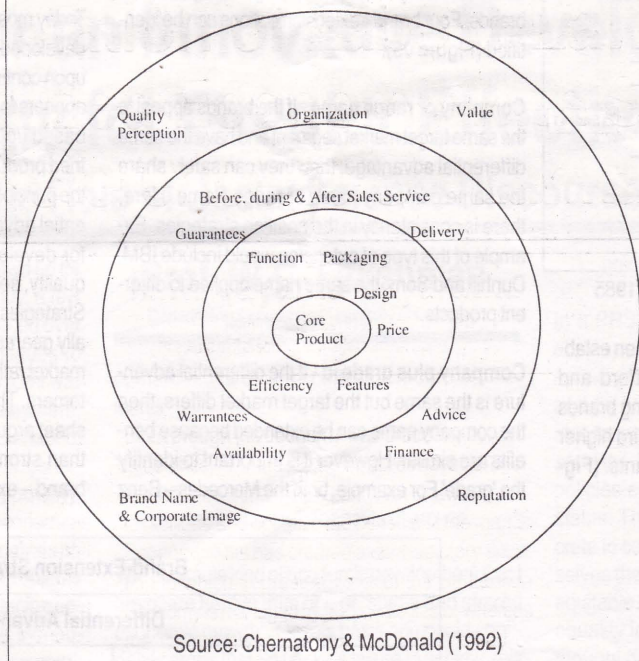
Uniqueness – Uniqueness is a particular feature that is developing the self-identity for the brands for this purpose organization can create identical statements themes with their promotional campaign. For example British airways promotes its brand as world favorite Air Line and develops the integrated marketing communication campaigns to positioning its brand as more prestige. Due to these strategies the customer loyalty will increase in view of uniqueness of brand.

Creation of Successful brands

The successful brands are not invented. Those are created with long-term efforts with different features and activities around the core product. The center of the branding task is core product. (Tangible product) Other features and activities around core product can be considered as dimensions of branding. This may or may not be different from the products of competitive manufacturers. Indeed, increasingly, it is unlikely that there will be any significant difference at a level which consumer can discriminate. A company to distinguish its product or service from those of its competitors can use any or each of these important dimensions. These are visually depicted in **Figure 02**.

The first layer around the core product can be considered as basic brand. Other two layers represent augmented and potential brand. The core of every brand is tangible product – the commodity that meets the basic customer needs. But to generate the sales in a competitive environment, this tangible product has to be put in the form of basic brand. Those of tangible product will not be unique variable to create a successful brand. Therefore any marketer should consider basic, augmented and potential brands in addition to tangible product. (See **Figure 02**)

Figure 02: Dimensions of Branding



Advertising rarely creates brands. This is often misunderstood because the advertising is generally much more visible than the factor which creates the differential advantage. For example Singapore Airlines is strong brand in the world and does some attractive advertisement. But their basis of the brand is the superior customer service of cabin staff. And also one of the UK brands – Marks and Spenser – has done little bit or no advertising at all.

In addition some dimensions are important to develop successful brands relating to above common layers of brands.

Quality as a strategy

Quality means fitness for uses. Quality output can be created through aesthetic aspects, taste, appearance, reliability etc. However the most important determinant of brand is its perceived quality. The quality generates higher margins in either or both two ways, first, quality boots market share, which result lower unit costs through economies of scale. Second by creating differential advantages it permits higher relative price. Most of successful brands in the world have been developed as high quality products and ser-

vices. For example the wining brands of SLIM Brand excellence 2002 (**Table 03**) can be considered as quality products or services in the Sri Lankan market.

Designing superior Service

Service is perhaps the most sustainable differential advantage. While products are easily copied by competitors, service because it depends on culture of organization and training and attitudes of its employees, is much more difficult. LG, Cargils, Keels, & McDonald's are all brands build on service in Sri Lankan market. A study by Albrecht and Zemark (1985) shows the important of the service. Of those who did feel unhappy, with the service provided by bank hotel or suppliers, only 04 percent bothered to complain – they just did not expect any satisfaction. Of those that did

not complain, 91 percent dropped the brand permanently. But, interesting suppliers who dealt with complaints fast and generously held in to the vast majority of dissatisfied customer.

Introduction of pioneer concept

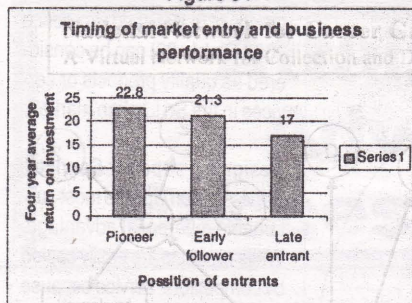
Perhaps the most common means of building an outstanding brand are being first into the market. This does not mean being technology first, but rather being first in to the mind of customers. Brands like IBM, McDonald's, Casio etc did not invent their respective products, but they were first to build major brands out of them and bring them in to mass market. It is much easier to build strong brand in the consumers mind and

Table 03 Winning Brand in Sri Lanka - 2002

Position	Brand Name & Company
Brand of the year	"Hapan" – NSB
Product Brands of the year	
- Gold award	Manchee Lemon puff
- Silver award	Manchee Corporate Brand
- Bronze award	Surf Excel – Unilever Ceylon Ltd
	EGB – Ceylon Cold Stores
Service Brand of the Year	
- Gold award	"Hapan" – NSB
- Silver award	Not Selected
- Bronze award	Western Union – Seylan Bank
Innovative Brand of the year	"Hapan" – NSB
New Entrant Brand of the Year	"Ithuru Mithuru" – NSB

Source: News letter of SLIM, December 2002

Figure 04



Source: Clifford and Cavanagh, 1985

the market, when the brand has not been established customers. This is why Clifford and Cavanagh (1985) found that pioneering brands earned on average more than one third higher returns on investment than late entrants. (Figure 04)

According to the above empirical data regarding the timing of market entry and business performance of four year average ROI is higher than early followers and late entrants.

However there are several ways getting there first such as exploiting new technology, new position concepts, new distributing channels, new market segments and exploiting gaps created by sudden environmental changes.

Look for differentiation

In building brands the key factor is to invest in markets which are highly differentiated or where such differentiation can be exercised. The product can be differentiated by the organization through quality service, style, technological, innovativeness etc.

Brand - Extension strategies.

Brand- Extension strategies are another controversial area in branding. Brand extension means transferring, the name of a successful brand to additional products possessed by the company. The advantages of such extensions may encourage customer confidence in a new product; create scale economies in advertising and promotion open up distribution and retail channels etc. The dangers are that it confuses the brand identity and can degrade the reputation of a successful brand.

Thus the problem knowing the principles related

to striking the balance. The right approach depends on the similarity of the positioning strategies of the brands. Four brand-extension options can be identified (Figure 05):

Company or range name - If the brands appeal to the same target market segment and have the same differential advantage, then they can safely share the same company name or range Name. Here, there is consistency in the position strategies. Example of this type of extension would include IBM, Dunhill and Sony-the same name applied to different products.

Company plus grade id - If the differential advantage is the same but the target market differs, then the company name can be extended because benefits are similar. However it is important to identify the 'grade' For example, both the Mercedes - Benz

Conclusion

Today most profitable products in the market have developed successful brands. The growth based upon continuously developing successful brands appears to provide a securer foundation than that based upon unrelated acquisitions or new untried products. Successful brands are built upon the principle of seeking to build sustainable differential advantages for the customer. The levers for developing such brands are four such as quality, service, innovation and differentiation. Strategies based upon acquiring brands generally geared to satisfying the interest of the stock market rather than the long-term interests of customers. The danger of the brand in the balance sheet argument is that it leads to weaker rather than stronger branding strategies. Finally, on brand-extension strategies, there are real ad-

Similar
Target Market Segment
Different

Brand-Extension Strategies	
Differential Advantage	
Similar	Different
Company or Range Name (IBM, Timotei)	Company Plus Brands (Kellogg's Cornflakes, Kellogg's Rice Krispies)
COMPANY PLUS GRADE ID (Mercedes Benz A-class S-class, E-class etc.)	MULTI BRANDING (Sunlight, Rin, Surf Exel, Kist, Astra etc)

Figure 05 - Brand-extension strategies

200 and 500 series offer deferential average based upon quality, but the more expensive 500 series appeal to a much more prestigious segment of the market. The supplemental number acts to preserve the prestige positioning of the letter marque.

Company plus brands - If company has different differential advantages, then it should use separate brand names. It can find some synergy if the brand are appealing to the same target market, by using same company name with separate brand names. For example different brands of Kellogg's may well be selected with in the same family unit.

Multi branding - if both target customers and the differential advantages are different, then using unique brand names is logically the most appropriate strategy. So companies like Procter & Gamble, Unilever etc believe that are worth losing out on the advantages of a common cooperate name in order to separate position the brand in the market- to give each brand a distinct positioning appeal to a separate benefit segment. Similarly, Honda has developed separately its Acura brand because it wished uniquely to position it away from its existing models.

vantages in brand sharing a corporate logo, but care is required in not eroding a successful brand's unique positioning.

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Need for an Innovative Development Strategy for Greater Effectiveness

The Role of Social Science Discourse¹

The concept paper and the agenda drawn up for this symposium identifies, quite rightly, a few burning social issues Sri Lanka has faced over the last couple of decades and continues to suffer from – the youth insurrections, civil war in the north and east, youth unemployment, economic deterioration, shattered social fabric, war trauma, worsened law and order conditions, increased incidence of crime, poverty, process of relief, rehabilitation and reconstruction, peace building and so on. The analysis of, and finding solutions to, these social problems are then presented as the challenge facing social sciences today. By using in the symposium title the expression “national development”, rather than an expression like “human” or “social” development, the convenors of the symposium are probably highlighting the nationality issue also as a major challenge for social science discourse.

Let me begin with my basic premise. In order to improve conditions in Sri Lanka in respect of the social issues raised above, there should be sustained strengthening of the society's economic base. The social problems no doubt, have multi-faceted causality. There is enough empirical evidence, however, from economic development experience of the last fifty years in a variety of societies, to confirm my hypothesis that there is a very strong direct causal link running from lack of success in sustainable economic development to the social ills like poverty, unemployment, youth unrest, civil war and so on. We in South Asia have indeed been very successful in talking of and recommending solutions for these and many other social ills, without getting our acts together to achieve sustainable economic development. When I say this, I am sure many will be formulating in their minds the counter argument that the social problems of the type discussed here have a life of their own independently of what happens to economic development. Let me therefore clarify myself about what I mean by economic development here before I go any further.

In the development discourse of the 1960s and 1970s shortcomings of definitions of development based on material advancement were strongly highlighted. When I argue here that there is a very strong direct causal link running from economic development to social peace and harmony, the concept of “economic devel-

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opment” I talk of is a combination of three elements:

- * Growth of production or real incomes
- * Stability in the rate of that growth over time and
- * Equitable sharing of benefits of growth.

The desirable kind of economic development that I advocate here is thus one of “stable and shared economic growth”. On this basis one could confidently argue that Sri Lanka's failure to achieve this kind of economic development has unequivocally been responsible for the social issues coming up for discussion in this symposium and also many other social ills. My argument is not adversely affected by the fact that there were many factors other than “lack of economic development” which influenced the social processes in the country. My argument is that these other factors were less than central. Then development policy, to be effective in respect of social development as well, should invariably define its goal as the process of “stable and shared” growth.

The dominant development strategy today, not only in Sri Lanka, but also in the world at large, is variously described as “structural adjustment policies” (SAPs), “market friendly policies” (MFP) and in more recent times, “poverty reduction strategies” (PRS). Many analysts refer to them also as policies of the Washington Consensus and more generally, neo-liberal policies. The core of this policy package consists of two parts, each part having a combination of inter-linked measures:

A. Macro stabilisation policies:

- * Fiscal discipline
- * Restrictive monetary policy
- * Realistic exchange rate

B. Adjustment policies:

- * Liberalisation & deregulation of:
 - international trade and finance, including foreign exchange transactions and
 - domestic goods and factor markets
- * Restructuring and privatisation and
- * Integration with processes of globalisation through opening up of the country to the myriad of global influences, economic, tech-

nological, social, cultural etc.

In a PRS programme (e.g. the SLPRS) the above policy mix is expected to achieve economic growth coupled with: (i) price stability and (ii) balance of payments stability (these also for how long is a question) but *not growth stability*. The growth achieved through such policies could be and has actually been unstable. The policy package has nothing concrete to correct this growth instability. By themselves they will not do anything to bring about equitable distribution either. Often growing inequality in income and wealth distribution is thought desirable for growth. SAPs or MFPs have also been found not to decisively reduce poverty. So the PRSs now (like the Sri Lankan one) talk of connecting (whom is not clear but I presume) may be the poor “to growth” so that the usual SAP becomes a PRS. A major tenet in SAPs or MFPs today is the dogmatically held maxim of “level playing fields” which indeed removes much of the room available to policy makers to incentivise and promote growth selectively, working through prioritized sectors. Growth promotion, indeed, is a matter of discriminatory treatment of sectors of an economy and a “level playing fields” policy (if strictly adhered to) would imply leaving everything to markets, which will ensure continued underdevelopment of the developing world in the prevailing conditions of uneven development.

The widely experienced result of these policies in developing countries which have experimented with them for a long enough period (including Sri Lanka) has been the following:

- * Unstable growth. Spurts of growth (showing ‘beginners’ luck’ type phenomena) followed by gradually declining growth. Growth spurts were often caused by sudden expansion of foreign resource inflows. To arrest the decline in growth, another resource injection would be necessary. With stronger policy conditionality, more and more of the same kind of policies will be implemented, in return for the enhanced resource inflows. No recipe for sustained and stable growth.
- * Growth producing concentration of incomes and wealth in a few hands. Distribution is permitted to get increasingly unequal. A theory also is being cited, in the name of “Kuznets’ inverted U hypothesis” to say

that the degree of concentration of wealth and incomes should increase in the early stages of development, if the society were to save and invest for accelerated growth.

Here lies the real challenge for social sciences in the Third World countries. Social sciences in general, and economics within social sciences in particular, are expected:

- A. To systematically critique the theoretical foundations of the development policy emanating from SAP or MFP models, examining these foundations against increasing empirical evidence from a variety of developing country environments challenging the claims made for these policy packages by their supporters, and
- B. To search for feasible policy alternatives that can achieve stable and shared economic growth at an accelerated speed.

There is a need to move out of the prevailing "paradigm" in a *Kuhnian* sense. What happens today is to research into minor issues remaining within the existing paradigm. We ought to begin questioning the existing dominant paradigm and the world view.

In regard to these tasks, social sciences today are in a crisis. Prevailing world conditions are gradually reducing the space available to social sciences for autonomous/independent thinking. Many pressures operate on us the social scientists to keep us chained within the frontiers of orthodoxy. *The government of the establishment in every society or nation state, big or small, would use its power to prevent research from exploring into new knowledge that could threaten the power of the elites.* Their power in society is ensured as long as they can keep people believing that "there is no alternative" (the idea conveyed by the acronym TINA, associated with Margaret Thatcher in the UK). So research into new knowledge is discouraged by not allocating adequate funds for such research activities, as these are considered threatening to social positions of elite classes. Indirectly, the powerful classes discourage such research by providing remunerative and influential positions to those who would

go along with TINA philosophy. We have known instances in many countries, including Sri Lanka, in which formal state power or informal terror tactics were used to preserve status quo in social research. Internationally, the rich countries led by the United States, and also private capital led by huge multinational companies, ensure that TINA remains the dominant ideology, particularly in respect of globalisation and market liberalisation. The bulk of the university sector and the non-university research establishment in these countries, often acting on self-interest, would minimise research into alternatives. Most importantly, the message of TINA is carried to even the remotest corner of the Third World and the implementation of MFPs is ensured through conditionality by the Washington institutions. They command power over huge volumes of resources – partly their own and partly those the advanced countries are willing to allocate for resource-poor developing countries. Since 1995, the WTO operating much more forcefully than the predecessor GATT to establish free trade in goods and services in the world economy has become a strong ally to the Washington institutions. There is thus a hugely powerful world system, which determines the social science agenda and ensures that social science research remains well within orthodoxy. We have indeed moved a great deal away from the dependency visions of the 1970s, but there are today stronger reasons than then to hold on to ideas of intellectual neo-colonialism.

Let me try to sum up by raising an important issue. In the deliberations of this symposium an attempt will be made to "identify ways and means of enhancing the contribution of the social sciences", as the concept paper says, to reduce crime and improve law and order situation in the country, to reduce poverty, to improve processes of peace building and conflict resolution, and to carry out RRR activities. Sri Lankan society is indeed eagerly looking forward to see the reduction in crime, alleviation of poverty, establishment of permanent peace and resettlement and reintegration of the millions who were thrown out of their homes and villages. In today's environment of optimism, created by the peace process, all of us are hoping for the peace dividend – arising from production and income growth and from large volumes of foreign assistance that are being committed. Having been battered for twenty years by a civil war, which the bulk of this society did not want, we all deserve indeed a large peace dividend.

But I fear that we are not ready with a carefully carried out conceptualisation of how things would develop over a period of even 5-10 years, let alone a longer time horizon. Nor do we have plans to achieve "stable and shared economic growth". Even the very word

planning is often viewed with utter disdain. In the context of the ongoing peace process huge pledges of foreign assistance are being announced I would indeed congratulate any government able to raise large volumes of foreign official capital. My argument is that without carefully formulated plans of action, with realistic implementation mechanisms, to achieve "stable and shared economic development" we would not make the maximum use of the enormous international goodwill that seems to exist today. Persons talking of alternative economic policies today are likely to be written off as "statist" import substitutionists favouring control regimes. I am talking of alternatives to "level playing field" SAPs / MFPs, within a market-oriented, private enterprise system. Alternative development strategies are a pre-requisite if we hope to achieve stable and shared growth. In the prevailing scenario of extreme orthodoxy, combined with inflows of very large official foreign capital, we might experience a rerun of the 1978-82 experience. How the country came to a relative drying up of foreign aid around 1984-5 and started a gradual worsening of balance of payments after these years is known history. Economic growth rose sharply to 8% in 1978 but gradually fell to around 5% in 1982. This decline continued until the rate reached 2% by the end of the decade. The growth process was not only "unstable" (it is more correct to say that growth rate was gradually declining) but also highly "unequal" – in terms of distribution by income groups as well as by regions. When I argued in a seminar held in 1978 about the dangers of increasing relative inequalities, I remember a senior executive of the Central Bank asking me the question as to why should one worry about relative inequalities, as long as absolute poverty levels are falling. What the highly unequal / inequitable economic growth had done to our society during 1983-89 is well-known. No doubt, behind these developments, there were other reasons as well which combined with growing inequality to create the disorders in our society during this period. My argument is that had action been taken timely to make the economic development of the preceding period less unstable and most importantly, equitably shared, the social disasters of this period could have been averted. Our history would indeed have been very different. We are again at the threshold of plunging into a yet another era of faithful application of SAPs, accepting to a large extent, its "level playing fields" ideology as well. Let me end up by raising two sharp questions: What can we social scientists do to help the government avert a repeat performance of the 1980s? Are the policy makers willing to listen?

Footnotes

¹ This is the text of the keynote address delivered at a symposium organised by the National Science Council on "The Contribution of Social Sciences to National Development: Opportunities and Challenges"



Power Decentralization in Rural and Regional Development of Sri Lanka

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Poverty is a major common problem in the rural areas of many developing countries. It seems as an unchangeable challenge. The developing countries have, therefore, an essential role in rural development. Rural development is, in fact, a strategy to enable a specific group of people, poor rural women and men, to gain for themselves and their children more on what they want. It involves helping the poorest among those who seek a livelihood in rural areas and an ability to control more of the benefits in rural development (Singh, 1986). To attain this aspiration particularly to eradicate poverty in rural communities, various public policies, projects and programs have been adapted for past five decades. In the post world war period, concern over the high level of rural poverty led donor agencies to develop specific interventions aimed at rural areas. In the 1960s, the green revolution was introduced to increase agricultural production. Most of the people in the Third World countries live in rural areas and the majority is poor. Most of them are engaged in agriculture. Hence giving agriculture high priority in development, the green revolution was initiated through improving land augmenting and cost reducing technology for agricultural production (Griffin, 1989). Recently, the integrated rural development model has been introduced through area development projects. In addition, the World Bank (WB) attempted to target the rural poor by providing a detailed, multi-sectoral package for rural based development from 1980s (Parker, 1996). In the mean time, relevant governments of most developing countries introduced and implemented different types of fiscal, monetary and trade policies to accelerate the development process. The strategies under these policies are partial or sector specific favoring such as foreign trade or agriculture. These trade and fiscal policies have, however, often discriminated against the rural agricultural sector (Rondinelli et al., 1984). High levels of taxation and other macro-economic policies have also adversely affected performance in the agricultural sector. Public allocations for agriculture have often been inadequate and frequently misdirected. The allocation of resources between urban and rural areas has been unfair.

Many intellectuals and policy makers have different reasons in relation to backward

development and its unequal distribution. They believe market imperfections, even in the rural context, justify continuing central control and intervention. This is not simply an economic debate. There are powerful political arguments regarding central control and intervention. On the other hand, some believe that centralized economic planning and intervention works from a national development view and in more urban bias. The attention to the rural sector is not successful. Participatory bottom-up methodologies are considered to be merely invalid. Even the best-designed policies for rural development and the balanced development are likely to fail and continue macro economic imbalances. A centralized government system has never been a perfect strategy to this imbalance. Therefore, the recent initiative put forward for an efficient and balanced development with an equal distribution in a country is that of the decentralized mechanism.

CHANGING APPROACH OF DEVELOPMENT STRATEGIES

Since the early 1950s, control over development activities in most third world countries has been centralized in national government ministries and agencies. Central control was compatible with the major theories of economic development that emerged in the late 1940s. During the 1950s and 1960s, economic development theorists advocated capital-incentive industrialization policies that were aimed at maximizing gains in gross national product. Under these policies, industrialization strategies in practice tend to place much stress on raising the level of capital formation, on introducing technology and, by extension, on promoting the growth of a country (Griffin, 1989). The policy makers, accordingly, emphasized the government role of the industrialization. This required strong intervention in investment and production processes by national governments and called for centrally conceived, comprehensive plans for national development.

Central planning was introduced in many developing countries in the 1950s as a means of providing rational and coherent policies for using scarce resources effectively to promote rapid

growth in industrial output. Central planning was prescribed by international assistance agencies, such as the World Bank, as a way of promoting "modernization", accelerating social and political change, generating employment, and mobilizing capital for massive investment (Rondinelli and Cheema, 1983). Central planning and administration were considered necessary to guide and control the economy and to integrate and unify nations that were emerging from long periods of colonial rule. Moreover, central control was implicit in the requirements of the international assistance agencies that were providing large amounts of capital during the 1950s and 1960s. They insisted the borrowers to have comprehensive and long-term plans for the investment of external capital.

By the end of the 1960s it was widely recognized that central planning had not achieved these goals. Economic growth remained sluggish in most developing countries during the 1950s and 1960s; even where growth rates were high, only a small group usually benefited from increased national production. Income disparities widened between rich and poor, and among regions in many countries. The living standard of the poorest groups in the least developed nations declined, and the number of people living in what World Bank officials called "absolute poverty" was increasing. Many development planners and administrators began questioning the effectiveness of strategies based primarily on increasing industrial output and challenging theories calling for maximum economic growth regardless of the patterns of income distribution. New structures and procedures were, accordingly, needed to elicit the participation of lower income groups and communities in rural areas in promoting greater self-sufficiency in regional economies. In some Latin American countries, governments established Regional Development Corporations to stimulate local investment and greater agricultural production, and many African governments set up provincial, district, and regional planning committees (Bird, et al., 1995). In Asia, there was a rapid proliferation of frontier-region resources management agencies, regional planning and development offices, provincial development programs, integrated rural development schemes, and financial aid programs for district and village administrative

units. Much of the interest in the decentralization undoubtedly came, accordingly, during the 1970s for realization the central control and management of the economies of the developing nations where did not ensure rapid economic growth.

CENTRALIZATION VERSUS DECENTRALIZATION

Decentralization is one of the most popular concepts in the literature regarding development planning. Sundaram (1997) states that the Decentralization is often justified as a way of managing national economic development more effectively or efficiently. It is closely related with successful resources mobilization and therefore balanced development over the country. This decentralized mechanism for rural-based development is considered to offer possibilities for building on the essential principles of integrated rural development while avoiding problems associated with an over centralization of functions and responsibilities (Parker, 1996). On broad base, this is considered the people participation in decision-making as a useful process in effectiveness and sustainability. In public administration, decentralization means moving substantial areas of governmental power away from the center to the peripheries. These powers could either be decision-making, resources allocation, rural development planning and rural policy enforcement. Decentralization has, accordingly, been an essential strategic principle adapted for balance development in terms of equal distribution of development opportunities from the urban to rural areas since late 1970s.

During the past three decades governments in developing countries have attempted to implement a variety of decentralization policies. Some have been comprehensive in scope and designed to transfer development planning and management responsibilities to local units of governments. Others have been more narrowly conceived; they simply de-concentrated or reallocated administrative tasks among units of central government.

POST INDEPENDENT DEVELOPMENT BASED DECENTRALIZATIONAL PROGRAMS IN SRI LANKA

The British administration ended in 1948. Politically parliament/cabinet system was established and constitutional power belonged to it. But, the colonial system of administration remained largely unchanged for the next 30 years and also in that period the administrative structure tended to be further centralized. The district administration or kachcheri system

remained constant. The Government Agent (GA) was further the head of district and he was directly responsible to the Ministry of Home Affairs. He was assisted from an Assistant Government Agent (AGA) at the level of the division, and village headman (Grama Sevaka) for a cluster of villages. District Government agent was the coordinator of all activities in the district. These activities were done through two inter-departmental committees, namely the District Agricultural Committee (DAC) and the District Coordinating Committee (DCC). The DAC was, accordingly, responsible for preparation of the annual agricultural implementation program at the district level, while the DCC was expected to ensure coordination of development activities in the district, but did not involve the preparation of any development plan (Goonaratna and Jayasinghe, 1999). Both committees were under the chairmanship of the GA. But, one symptom was new under this. That was the creation of new administrative services absorbed by the committees. Another was that of the minister of local government being invested with the power to dissolve local authorities elected by the people and administered them through special commissioners appointed by him. However, The DAC and DCC are considered as initial attempts at decentralized planning and coordination.

At the same time, attempts were made in the 1960s and 1970s to give the district administration greater authority by up-grading the principal officer from assistant to full Government Agent, by creating new districts in order to extent and improve the delivery of government services. Under this district administration, direct political leadership transferred to the district administration through the appointment of a District Political Authority in early 1970s (1973 September). This was expected to create a political leadership at the district level for implementing government policies more effectively. There were, accordingly, two objectives for this system (1) to provide political leadership for the food production and (2) to provide a form of decentralization whereby the people could be associated in planning and implementation through the district political authority (Leitan, 1986).

The decentralized budgetary system was accompanied with this system and funds allocated for the district level from 1974. The decentralized budget system was supported by two other measures. First was the appointment of district ministers to provide political direction on local development activities and to coordinate the activities of all the government officials in the district. Second was the increasing emphasis placed on regional development planning with the districts serving as regional planning entities. However, this system marked a very significant change in the character and operation of Sri Lanka's administration system since it was a challenge to

the vertical organization of government departments and an attempt to introduce decentralization of planning to the district.

The Divisional Development councils (DVDCs or DDCs) were also introduced for the development activities in 1971 and those worked at the same time with the decentralized budgetary system. The DVDCs considers as first attempt towards decentralized planning and implementation at sub-district level and it was to be primarily a planning agency at the level of AGA division. DVDCs were constituted for each village councils and town council area. These were composed of (a) the chairman of village level institutions in the area viz. the local authority, the multi-purpose cooperative society, cultivation committee (b) government officials functioning at the level of the AGA division and (c) MPs of the area. The DVDCs were entrusted with the task of identification of suitable projects, preparation of plans and their implementations, coordination and coordination of the services of government, regular review of planning and implementation and recommendation of corrective action wherever necessary (Leitan, 1986). The projects that identified by the DVDCs were submitted to the planning ministry through the government agent and funds were channeled through him for implementation. The DVDC program provided an opportunity to organize government development efforts in rural areas through local participation. It was, however, discontinued in 1978. In addition, there are other form of development societies has formed in early 1940s. These are called as Rural Development Societies and Women Societies (Kantha Samithi). The purposes of these societies were promoting village development and coordination of government development efforts at village level. However, these societies also disappeared with the abolition of Department of Rural Development in 1997.

There are another type of local authorities is involving in local administration and development works such as Municipal, Urban, Town and Village Councils since 1930s and 1940s to date. To these bodies, voters elected members in that particular areas and they have limited number of functions under the supervision of Ministry/Department of Local Government. These are working independently each other under the relevant ordinance and control of Ministry/Department of Local Government. From this local Governments, Urban and Municipal Councils still work in urbanized areas. The town and village councils were abolished with establishment of development councils in 1980s. The responsibility of currently working councils has, however, broadened than previous situation especially major functions

belonged to them are maintenance, lighting of streets, public health and public utilities so on in accordance with their finance. Recently those are formed again within a different structure due to constitutional recognition of 13th Amendment of 1987.

Under the 13th Amendment, there are another type of local authority has established. It is called Pradeshiya Sabhas, works in rural areas. The voters of the respective areas elect all these local authorities. Under the devolved structure, these local authorities especially the Pradeshiya Sabhas are expected to be the development arm of the Regional Governments (Provincial Councils). In addition, Integrated Rural Development programs (IRDPs) were started in 1987 as a strategy for integrated district development in areas where the districts have not benefited from major national projects. This is considered as another type of decentralized activities in relation to development and currently about 15 IRDPs have been implementing different districts in the country.

In 1981 the management of each district was transferred into a District Development Council (DDC) by establishing District Development Councils under the act No. 35 of 1980. This also represented the members who directly elected to it plus the members of parliament of that district. The number of district electees to the district development council was set at one less than the number of MPs in the district. The election was held on the basis of the list system of proportional representation and the candidate whose name appears first on the list obtaining a majority of votes is declared chairman of the development council. Central control over the DDCs was, however, under the operational control over the budget of DDC. The DDCs had a wide range of development functions such as agriculture, fisheries, agrarian services, minor irrigation, rural development etc. The development Councils are successors to the Town and Village Councils, which were abolished, and as such, they were vested with the functions, which belonged to these councils. These functions relate to public thoroughfares, public health and public utility services, which they may undertake according to their financial position. There were, in addition to these, fourteen subjects enumerated under the Development Council Act.

- * Agrarian Services
- * Agriculture
- * Animal Husbandry
- * Co-operative Development
- * Cultural Affairs
- * Education
- * Employment
- * Health Services

- * Food
- * Housing
- * Irrigation Works
- * Land Use and Land Settlement
- * Rural Development
- * Small and Medium Scale Industries

The executive committee of the DDC was required to consider draft proposals prepared by the ministers dealing with those subjects, to formulate other proposals in consultations with the appropriate ministers and to prepare an annual development plan incorporating all or any such proposals. Furthermore, Development Councils had following duties in relation to area development:

- a. The approval of the annual development plan submitted to it by the Executive Committee.
- b. The implementation of such plan through the Executive Committee.
- c. The making of by-laws.
- d. The investment of the revenue of the Council for development purposes.
- e. The formulation of a development scheme in respect of any subject not included in the first schedule to this Act and the submission of such schemes to the appropriate Minister for approval with the concurrence of the Minister.

The Decentralized Budget operated under this system and therefore "District Budget" which were allocated funds for local level development. A noteworthy feature, however, is that the districts receive funds from the district budget on the basis of an equitable allocations for each MP. The Development Councils had power to establish a development fund for its general financial purposes. The fund built up by all taxes, duties, fees, all fines sale transactions, any revenue from property transaction, all grants, all loans raised by the council, any donations and other charges levied by the council by virtue of this Act or of any other written law (Development Council Act, Part V). All moneys received by the Development Council and payable into the Fund was lodged with an approved bank and was credited to an account entitled "the development fund".

The Development Council had power too, in relation to any development plan, to levy by a by-law, such taxes, rates or other charges as may be determined by the Council and approved by the Minister with the concurrence of the Minister in charge of the subject of finance and such by-law, in accordance with section 70, have effect upon confirmation by Parliament and notification of such confirmation published in the Gazette (Act, Part VI). In addition, Development Council had power to borrow money from the Central Government or any Bank or other institution such sums as might be required for any of the purposes of the Council (Act, Part VII).

REORGANIZING OF POWER DEVOLUTION UNDER THE PROVINCIAL COUNCIL SYSTEM IN SRI LANKA

Provincial Councils (PCs) were established under an amendment to the Constitution. The 13th Amendment to the constitution of Sri Lanka and the Provincial Councils Act No.42 of 1987 has devolved some authority and responsibility to the sub-national level to the province. This was an urgent need of broad-based administrative authority since few major reasons. The development councils proved inadequate to bring about meaningful decentralization. It further failed to accommodate the demand for regional equity and local autonomy amongst the Tamils in the north and the east. It is, therefore, necessitated a more substantive system changing in the direction of devolution. Regional autonomy through provincial councils sought to contain the alienation of Tamils and their exit from the unitary system (*Gunawardana, 1991*). The functions and tasks of the PCs are clearly spelt out in the Act. Further, this system is supported by larger sums of financial resources and politico-administrative arrangements with greater autonomy. The voters of each province elect PCs under a system of proportional representation. The area and population of the province determine the number of elected members of PC.

The Province is the unit of devolution represents an upward shift from the local and district to a regional level for locating government powers. It permits a more comprehensive focus in devolution with greater functional autonomy. As already set out, the scope of devolution covers both legislative and executive powers confined to the Province. The structural framework for transfer of powers comprises institutional arrangements for the exercise of legislative and executive powers. Legislative powers are vested in a provincial council while executive powers have been vested in the governor. Procedural arrangements for the exercise of devolved powers are set out in the provincial council Act No. 42 of 1987.

PC established in every province becomes the very hub of devolution, to which law-making powers of the State have been transferred in respect of specified subjects and functions'. It is safeguarded in its actions and deliberations by providing immunity to its members and other persons in regard to matters arising out of their participation in the business of the council. The council functions as a self-regulating body, making its own rules for regulating its procedure and the conduct of its business. Procedure in the conduct of the business of a provincial

council should not be called into question in court. PC has its own secretarial staff provided under statute passed by the council. The powers of the centre and of the PC are contained in the 9th schedule to the 13th Amendment to the Constitution, as follows:²

Subjects and functions assigned to PCs comprise mainly matters of regional concern and focus a bearing directly on the daily life of people. Ensuring responsibilities make the PC the provider of basic services to the community. These can be classified as follows:

1. Public order, administration and provincial affairs: Police and public order; local government; vital registration; naming of villages and towns; festivals and exhibitions.
2. Provincial Planning: Planning and implementation of provincial economic plans; progress control and monitoring, evaluation, data and information.
3. Finance: Taxes as set out; fees in respect of subjects assigned; borrowing to the extent permitted by parliament; provincial debt.
4. Economic and social services: Agriculture and agrarian services; land development; animal husbandry; fisheries; industries; health; education; social services and rehabilitation.
5. Institutional, human resources and rural development: Rural development; co-operatives; market fairs; employment; employment and planning and manpower development.
6. Infrastructure, urban development and environment: Irrigation; high ways; housing and construction; transport; electricity; rest houses and bungalows; survey and environment.
7. Trade, commerce and food distribution: Food supply within the province; trade and commerce; provincial enterprises; tourism; price control and protection.
8. Cultural and sports: Archeological sites; libraries and museums; arts; media and sports.
9. Regulation of provincial activities: Corporate and unincorporated activities; mines and mineral development to the extent permitted by parliament; charities and religious institutes; gaming; drugs and poisons; excise and infectious and contagious diseases.
10. Miscellaneous: Pawnbrokers; burials and burial grounds.

In addition, PCs have some role under the concurrent list also. The concurrent list comprises subjects shared with the government. In this context, it must be noted that the subjects

and functions devolved are only what have been expressly set out in list I or list III. These subject headings are not comprehensive or all-inclusive unlike those in the reserved list where matters included have been specified without defining or restricting the ambit of the reserved subjects. Therefore, in defining the domain of PC it is necessary to compare and correlate the three lists in determining what is excluded and hence will fall in to the area reserved for the government.

ROLE OF RURAL AND REGIONAL DEVELOPMENT OF PCs

Sri Lanka has been implementing various policies and strategies on the purpose of development since independence. These strategies appeared time to time in the form of political and economic. The recent effort for balanced regional development was decentralization under the Provincial Councils. The proposal to established Provincial Councils is a step towards political, administrative, economic and social devolution of power from the Centre to the periphery. This is new definition of development stresses the importance of taking into account local consideration in the formulation of development policies and programs. The provincial level certain matters that relate to the people's welfare at the sub-national area would, accordingly, come within the authority of the Provincial Council together with the development of its resources such as man power, land, water, minerals, power forestry etc. Within the broad framework of policies as formulated by the central government and provincial governments, work out their strategies and policies for the purpose of balanced development.

Although the governments of Sri Lanka have emphasized a balanced economic development and therefore effective development policies, for last five decades most of regions in Sri Lanka are suffered from underdevelopment or backward development. The disparity in economic development in the various provinces in the country is reflected in regional pockets of poverty and the varying standards of living in the various regions. Some areas produce more but remain poor because the surpluses are siphoned off to developed centres by way of internal terms of trade, the banking system and marketing structure. As a consequence, the percentage of poor further increased and the living standard declined. The national average regarding stunting or chronic under nutrition (height for age) was, accordingly, around 35 percent. The worst affected districts were Nuwara-Eliya, Badulla, Kandy, Matale, and Batticalo. The socio-economic surveys of the Department of Census and Statistics reveal that calorie and protein consumption levels were also declined. Malnutrition and epidemics were, accordingly, quite common in rural Sri Lanka like in many Asian and African countries.

In the point of view of living standards the population could be roughly divides in to three groups, first group is urban affluent minority, mainly in the city of Colombo and its suburbs who enjoyed a high standard of living. The second group consisted of more than 75 percent of the population that lived in the rural sector, which eked out a very difficult existence. Their consumption was not only at the lowest imaginable levels, but also due to the lack of adequate interest by government and the capacity to eradicate disease, particularly in the dry zone, the impoverished peasantry was undernourished and became victims of frequent epidemics. The third group is in the plantation sector, where poverty has been more evenly spread because well to do people were virtually absent in the estates, except the executive staff. On the other hand, unemployment has grown particularly for last three decades. Income distribution is worse and big differences between rural and urban. Industries and other most of facilities concentrated around Western Province. Except some urban areas other rural areas suffer from development disparities. Implemented economic development programs since independence have brought about an imbalance in the levels of socio-economic development. Hence, devolved power for socio-economic development of the regions through regional planning and provincial industrialization was meaningful under the political decentralization and as a result of that Provincial Council system was established.

RURAL AND REGIONAL DEVELOPMENT POLICIES OF PCs

The significant feature of decentralization under the PCs was the changing development focus of economic policies from national view to regional view. Since independence, national policies in Sri Lanka, in general, were designed within the context of a macro economic policy framework. Until 1977 these policies were within the framework of a closed economy. In 1977 the economy was opened up, and market oriented strategies were introduced and the private sector was encouraged to lead the economy. Within this context, the Government expects to achieve a balanced and sustainable economic growth.

In the context of this national macro economic view, regional governments are allowed to pursue regional economic policies for their development. The Governors of the Provinces present policy statements in each year, taking into account the Provincial role. The policies in relation to human resources development, Human settlements, agriculture, industry, trade, local government and other sectors are

Contd. in Page 33

MINOR EXPORT CROPS

The minor export crops sector, which consisted of spices and other agricultural commodities such as un-manufactured tobacco, arecanut, cashew kernels, essential oils and foliage and cut-flowers, recorded an improved performance during 2002. In rupee terms, earnings from this sector, as a whole, rose by 31 per cent to over Rs. 16 billion, much more than the total export earnings from rubber and coconut in 2002.

Cinnamon is the most important crop in this sector. Sri Lanka is the world's largest producer and exporter of cinnamon, accounting for nearly two thirds of the global output. The extent under cinnamon cultivation is estimated at approximately 25,300 hectares.

According to estimates of the Department of Export Agriculture (DEA), the cinnamon production during 2002 has declined by 4 per cent, but export volumes have increased in raw form both farm gate prices and export prices increased during 2002. Earnings from cinnamon in primary form amounted to Rs. 4.3 billion, while earnings from cinnamon bark oil and leaf oil exports amounted to Rs. 258 mn. There has been a steady increase in earnings from cinnamon exports in recent years and it has become the third largest export agricultural crop, next to coconut, since 1998. There is considerable potential for Sri Lanka to increase value added exports from cinnamon and measures should be taken to gain this capability in the medium term. At present, most of the cinnamon is exported as quills in bulk form. Therefore, it is necessary to encourage the value added cinnamon industry by adopting proactive measures and creating awareness among exporters.

Provisional estimates by DEA, based on export volumes, reported a 65 per cent increase in the output of pepper during 2002. However, the export volume of 2002 may have contained the previous year's stocks, thus leading to an over estimation of the output. The export volume of pepper increased more than twofold, to 7,900 metric tons, in 2002 compared to the previous year, earning nearly Rs. 1.5 billion. More than 80 per cent of the pepper was exported to India under the Preferential Trade Agreement in 2002. However, international pepper prices were not attractive due to stiff competition among major producing countries in the global market in the wake of a decline in the pepper consumption in Europe.

The attractive prices that prevailed during the last two years encouraged cultivators to increase fertiliser application and improve other agronomic practices, resulting in a 64 per cent growth in clove production during 2002. Consequently, exports of cloves more than doubled to over 4 million kg, thereby increasing export earnings to a level above Rs. 2.7 billion. Surpassing the earnings from rubber during 2002. As a result of the preferential tariff rate enjoyed by Sri Lanka with India, more than 95 per cent of cloves were exported to India in 2002. Clove oil was exported in limited quantities and earnings from oil exports in 2002 amounted Rs. 19 mn.

The foliage and cut flower sector too made a significant contribution towards the export earnings during the year. The sector expanded its activities with

the assistance of the Department of Agriculture (DOA) and the Export Development Board (EDB). DOA continued to assist the floriculture sector by providing technical assistance, conducting training programmes, and issuing plant varieties through the National Botanical Gardens. EDB too assisted to develop the floriculture sector, especially among small-scale growers and to find export markets. Export earnings from foliage plants, rooted cuttings and cut flowers rose by 7 per cent to Rs. 776 mn. during 2002.

DEA continued to assist the development of the export agriculture sector by implementing subsidy schemes and providing necessary inputs, technical information and extension services in cultivating and processing spices. However, the subsidies disbursed under the Export Agriculture Assistance Scheme (EAAS) declined from Rs. 72 mn. to Rs. 25 mn. during 2002 due to lack of funds. As in 2001, more than 50 per cent of the subsidy payment was for pepper. The Second Perennial Crop Development Project (SPCDP) also supported institutional strengthening of DOA and DEA and upgrading the quality of the research of the Council for Agriculture Research Policy (CARP). Further, it assisted DOA and DEA in the production of seeds and planting material through its projects.

Oil palm is gradually gaining popularity as a plantation crop, especially in the Southern Province. At present, the extent under oil palm in three Regional Plantation Companies (RPCs) is approximately 3,000 ha. Oil palm cultivation has been expanding in recent years, replacing unproductive

rubber lands. The low labour utilisation, low cost of replanting and a shorter gestation period compared to rubber encouraged RPCs to shift to oil palm cultivation. During 2002, local crude palm oil production amounted to about 8 mn. kg. while palm kernel oil production amounted to 380 metric tons. However, there is a concern among the villagers in oil palm growing areas that the cultivation of oil palm could result in depleting the water table. Scientists of RRI have indicated that water transpiration in oil palm is higher than in rubber and the rate of transpiration further increased during droughts. However, the CRI is of the view that even though the water absorption capacity is high in oil palm, its productivity is higher compared to rubber, coconut and many other crops. Further research has to be conducted for economic processing of the biomass produced by oil palm and waste generated from palm oil extraction to provide value addition to the industry.

There is a big potential for organically cultivated horticultural products as they receive very attractive prices in the European markets. Therefore, assisting cultivation of those high value agricultural products by educating farmers and providing necessary inputs would generate a good income for rural farmers. A Task Force has been set up to make recommendations to develop spices and allied products and to come up with a longterm plan to expand this sector.

Courtesy – CEB Annual Report

Table 3.5

Production of Other Export Crops			
Crop	Metric Tons		
	2000	2001 (a)	2002 (b)
Coffee	2,540	2,350	2,360
Cocoa	1,300	1,275	1,100
Cinnamon	13,490	13,600	13,000
Pepper	10,676	7,650	12,600
Clove	1,700	2,700	4,100
Cardamom	62	60	60
Nutmeg and Mace	1,100	1,100	1,600
Cashew	935	1,239	1,292
(a) Revised		(b) Provisional	

Source : Department of Export Agriculture
Sri Lanka Cashew Corporation

Economics of Solid Waste Management

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Relationship between man and environment has been evolving from the ancient time, and that mutual relationship has been continuing up to present and it will not change in the future too. However, with the initiation of the development process, problems related to environmental quality have been gradually increasing and today it has become a prominent discussion. Sustainable development is one of the main concepts today in the world and quality of the environment plays a major role in this concept. Therefore, steps have to be taken to maintain the economic growth and development process with the minimum effects to the environment and to utilize the natural resources with the formal management.

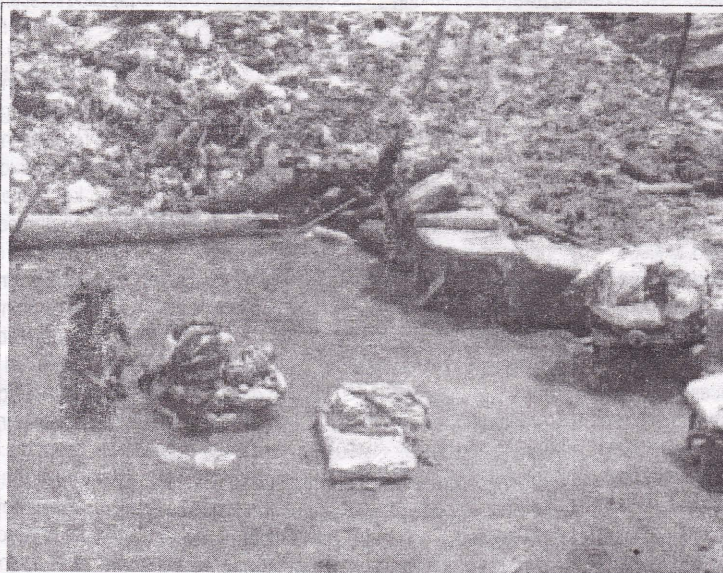
Solid waste is a growing problem in the world aggravated in the absence of proper management systems. Development and implementation of a national strategy for solid waste management is essential in order to reduce environmental, solid and economic problems associated with the present disposal practices. In the past, more attention had been given to waste disposal systems with little attention to solid waste management. However, rate of generation of solid waste is also increasing with the increase of population, technological development and the change of life styles of the people.

According to previous studies the global burden of solid waste amounted 113 billion metric tons in 1990 or two thirds of a kilogram of waste per person per day. Industrial countries account for a disproportionately high share of the world's waste relative to their share of the world income. Analysis across countries and overtime reveal that the generation of solid waste is positively related to variation in per capita income and that the generation of solid waste per capita does not vary with population size among countries with comparable per capita income.

However, today solid waste has come to main-

stream of discussion, because of the following four reasons:

1. Huge quantities of solid waste are being generated around the world. Although, much of it is collected and disposed of through controlled incineration or burial in sanitary landfills a good deal of the rest continued to be burned in the open or dumped haphazardly, especially in developing countries. Such practices are putting increasing pressure on land. Air and water quality and posing threats to human health that will be exacerbated by projected increase in total waste generation. Some studies suggest that some improvements in



the handling of hazardous wastes now would be less expensive than undoing in the future the damages to the environment and to human health caused by current handling practices.

2. Solid waste has resource value. Some of it is captured through scavenging and recycling practiced in the informal sector throughout the developing world and some through community-sponsored recycling systems and the conversion of waste in to energy, compost or both. Many studies are under way throughout the world to determine whether future value can be economically captured from solid waste.

3. Because the benefits of solid waste disposal extend beyond households and firms that incur the cost, community intervention may promote the social good.

4. Most of the countries in the world have spent a huge amount of money to dispose solid waste, because most people think that it is part of government duty. To reduce the government cost burden as well as the amount of gathered solid waste, it is necessary to take action to change this view.

In recent years problem of waste disposal have become critical in all industrialized nations as well as developing nations. Nations have been extremely active in the production of more and newer chemicals with never and difficult waste resulting from there from. It must, however, be remembered that no nation, no industry, no man will discover or produce these new chemicals

and their mixtures unless they are required by the consumers. The consumer requires these chemicals as they perform for him in better, more efficient and beneficial ways than the existing materials. Several examples of chemicals, particularly those used for agricultural purposes could be given to prove that without these the production of food, in quality and quantity could not be achieved. It is not unreasonable to visualize that without these chemicals many peoples could have died of starvation. The problem of waste disposal that any nation face is, therefore, complicated. No nation wants, which are difficult to

dispose of, should be completely banned. Such an action would have extremely serious implications.

The choice, therefore, is in ensuring that the disposal of all waste, and particularly hazardous waste, take place in a well regulated and controlled methods, using not the cheapest tolerable methods but the best environmentally friendly methods. It is unfortunately not realized that during the last 10 years appreciable advance has been made in improving the image

of the waste disposal industry. Most regulatory authorities are employing scientific staff to deal with waste disposal in environmentally safe way. Controls and operational techniques have improved considerably.

Difference between Solid Waste and Municipal Waste

Solid waste can be defined as non-liquid waste material arising from domestic trade, commercial, industrial and agricultural activities as well as waste arising from public sectors. Solid waste comprises of various different materials such as food waste, discarded clothing, garden waste, construction waste, factory off cuts and process waste and packaging in the form of paper, metals, plastic or glass, etc.

But, if we consider the meaning of municipal solid waste, we can say all solid wastes generated in a community except for industrial and agricultural wastes. Generally it includes discarded durable and non durable goods, containers and packaging, food scraps, yard trimmings and miscellaneous inorganic debris, including household hazardous wastes and often construction and demolition debris and sludge's and ashes generated by sewage treatment plants. Sources of municipal solid waste

include households, commercial enterprises such as food markets and offices and institutions such as schools, transportation terminals, and hospitals.

Practices for collecting, processing, and disposing of municipal solid waste vary widely across countries generally in accord with the nature of the waste stream and the key environmental and economic features. The least efficient practices tend to be found in developing countries, creating serious threats to local environmental quality and public health. Although considerable evidence points out that the generation and management of waste is sensitive to income and price variables, Natural incentives to over-use common property and the presence of intergenerational externalities both suggest that private economic behaviour will not yield socially optimal outcomes in that area. Community intervention may need to promote the social good with evidence accumulating in support of arrangement involving the participation of private firms.

Municipal solid waste increase at an annual rate of 2.7 percent and increased levels of solid waste may not have the catastrophic potential of either global warming or stratospheric Ozone depletion, but they have long posed the threats to environmental quality and human health, that are reason-

ably well understood and typically of great local and immediate concern.

Types of Municipal Solid Waste

Wastes are divided into four main groups depending on their physical form. They are -

1. Solid waste
2. Liquid waste
3. Dust or particulate material
4. Gaseous waste

Out of above categories our attention is focused on the municipal solid waste and municipal solid waste can be divided into two classes -

1. Recycled materials
2. Non-recycled materials

Recycled materials can be used by transforming as an input. Where as it is not the case of non- Recycled materials. Examples of Recycled materials are discarded Aluminium soft-drink cans, melted down to create new cans, food and yard waste composted and used to enhance soil fertility and old newspapers and plastic bottles burned to produce electricity. The non-recycled portion of municipal solid waste consists of by products that must generally be removed from the site lest they interfere with production and consumption by attracting vermin and flies, obstructing passage, clogging drains, emitting unpleasant odours and so on. Weather or not materials are recycled depends on the nature and cost of available production, consumption, Recycling and disposal technologies, as well as on government regulation. These can vary widely across economic settings.

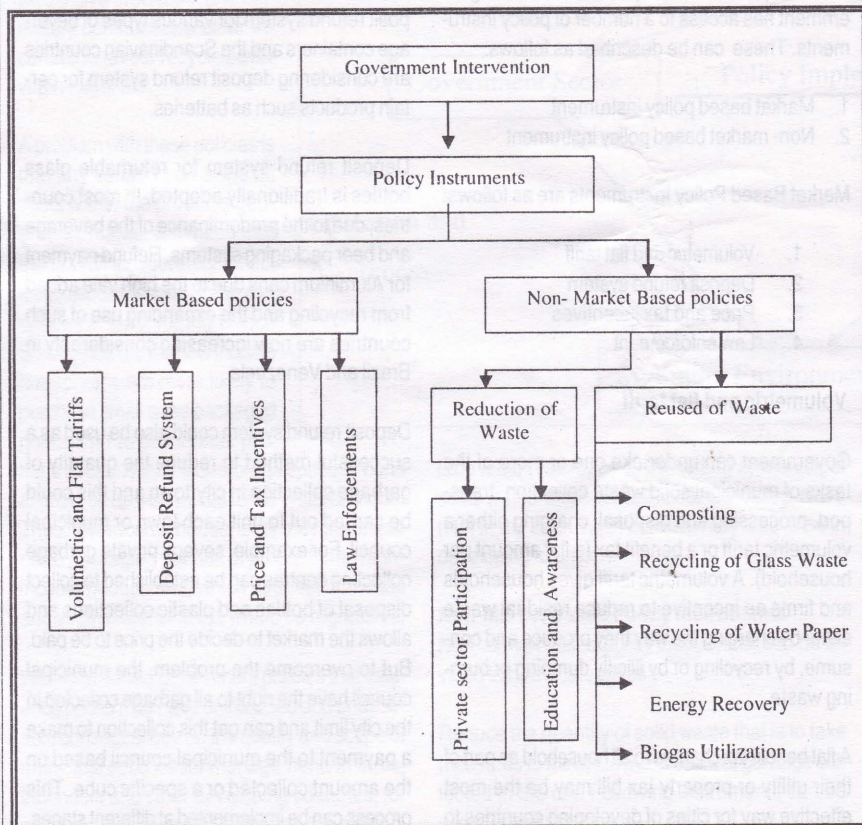
In developing countries, municipal solid waste management is often disposed of with ash where sewage systems don't reach substantial portions of the population, medical waste and industrial waste. For this reason, municipal solid waste in developing countries is sometimes more harmful to human and ecological health than it is in industrial countries.

The quality characteristics and composition of refuse vary mainly according to socioeconomic states, food habit, local customs, geographical location, occupation and climatic conditions. Further seasonal generation determine the future of the waste. The quantity and quality of waste depend on climate of the season. The characteristic of the waste reflects the consumption and the production activity of the country, because it determines physical, biological characteristics of waste.

In developing countries, it is evident that the rate of production of municipal solid waste is

Box 1

Economic policy instruments



about 30 percent of that developed countries. However, developing countries sever crisis with waste, due to lack of adequate treatment and disposal measures.

Solid Waste Management Systems

Most systems for managing municipal solid waste management have three basic components -

1. Collecting and transport
2. Processing
3. Disposal

The purpose of collection and transport is to gather and remove municipal solid waste management from its point of generation to safeguard public health, limit congestion and preclude unpleasant odours and aesthetically offence sights. The purpose of processing is transform the physical characteristics of municipal solid waste management by recycling composting, burning or compacting, in order to reduce the threat it poses to human health and eco-systems, improve its disposability and possible capture value from the waste. The purpose of disposal is to isolate and contain the residual waste that is left after processing. Some municipal solid waste management systems ignore or incompletely implement one or more of these key components.

Mismanagement solid waste and its improper disposal lead to health and environmental problems. Most obvious environmental problem that has more public concern is damages to aesthetic view. However, more serious visible, invisible, and some times irreversible environmental damages occur due to surface and ground water pollution by the emanate from uncontrolled open dumping of solid waste.

Air pollution can also be caused from the inefficient burning of waste either in an open air or in plants with inadequate emission control systems.

Solid waste management incorporates management activities associated with generation, storage, collection, transfer and transport, processing and disposal of solid waste in an environmentally sound manner. It encompasses planning, organization, administration, financial, legal and engineering aspects of involving interdisciplinary relationships.

There are few types of solid waste management systems in the world as follows:

1. Direct dumping on approved sites
2. Sanitary land filling
3. Dumping in deep sea
4. Elimination by incineration

5. Direct and indirect recycling

An effective integrated solid waste management system examines waste reduction source, resource recovery through separation and recycling, resource recovery through waste processing, waste transformation and environmentally sustainable disposal with the accelerated generation of waste caused by increased population, urbanization and industrialization. Developed countries are now in a position to solve the problem of solid waste through well-organized, and well-planned solid waste management programmes. Developing countries, on the other hand, are fighting with problems associated with food, shelter and clean drinking water. Poor economic condition is a major barrier for developing countries to promote and implement effective waste management technology as practiced in developed countries. Proper care has to be taken for planning and implementation of various components of solid waste management programmes in developing countries, each country has its own way of problem solving.

Common property resources and intergenerational externalities provide incentives for household and firms to under consumer services in the private market for municipal solid waste management. Because the benefits of some kinds of municipal solid waste management to households and firms fall short of the benefits to society, the optimal government interventions are those that align the private and social incentives for municipal solid waste disposal as closely as possible. The government has access to a number of policy instruments. These can be described as follows:

1. Market based policy instrument
2. Non- market based policy instrument

Market Based Policy Instruments are as follows:

1. Volumetric and flat tariff
2. Deposit refund system
3. Price and tax incentives
4. Law enforcement

Volumetric and flat tariff

Government can undertake one or more of the tasks of municipal solid waste collection, transport, processing and disposal, charging either a volumetric tariff or a benefit tax (a flat amount per household). A volumetric tariff gives households and firms an incentive to reduce residual waste either by charging the way they produce and consume, by recycling or by illicitly dumping or burning waste.

A flat benefit tax charged to all household as part of their utility or property tax bill may be the most effective way for cities of developing countries to

pay for municipal solid waste management, reduce the incentive to dump municipal solid waste illegally and possibly subsidize municipal solid waste management services for poor neighbourhoods.

Although benefit taxes do not provide an incentive to reduce municipal solid waste discards, in developing countries, it is likely that most of the recyclable or reusable materials have been recovered by the time municipal solid waste is put out for collection.

Deposits Refund system

This is a method that is placed at national level. Fullerton and Kinnamon (1993) present a theoretical model where illicit burning or dumping are option for municipal solid waste disposal and the resulting environmental damage is grater than from sanitary land filling or incineration. In such circumstances, a deposit refundable scheme for recycling waste may be a more efficient policy than levying curbside charges. The clear advantage is that it encourages households and firms not to dump or burn municipal solid waste illegally. Moreover, it may be cheaper to manage deposit refundable scheme than to monitor the disposal behaviour of many small-scale illegal dumpers. Cyprus, Egypt, India and Lebanon have deposit refundable system for carbonate beverage containers made of glass. Australia, Canada, France, Germany, Switzerland and the United States have deposit refund system for various types of beverage containers and the Scandinavian countries are considering deposit refund system for certain products such as batteries.

Deposit refund system for returnable glass bottles is traditionally adopted. In most countries, due to the predominance of the beverage and beer packaging systems, Refund payment for Aluminium cans due to the high vale added from recycling and the expanding use of such countries are now increasing considerably in Brazil and Venezuela.

Deposit refund system could also be used as a successful method to reduce the quantity of garbage collection in city/town and this could be carried out to unit each town or municipal council. For example, several private garbage collecting centres can be established to collect disposal of bottles and plastic collections and allows the market to decide the price to be paid. But to overcome the problem, the municipal council have the right to all garbage collected in the city limit and can get this collection to make a payment to the municipal council based on the amount collected or a specific cube. This process can be implemented at different stages.

These waste can be collected and sorted out and create a market in such a way that they are sold to the respective producing factory. This will encourage to reduce the disposal of waste when people observe the creating such a new market in the private tender or even if they are disposed. This will create another set of people who will collect these items and make it a source of income. Thereby this will minimize the amount of waste collected in the environment. Such activities will reduce the amount of garbage to be collected by the municipal council.

Price and Tax Incentives

Incentive policies that indirectly affect prices are also an option fees can be imposed on goods at the retail level to reflect expected disposal costs. This policy is less precise than curbside charges because it does not directly influence disposal decisions. It may affect consumption decisions, however, and hence the composition of municipal solid waste. If a system of curbside charges is too costly to operate as would probably be the case in developing countries packaging taxes may be a second best policy. A related policy would be to tax the virgin materials content of goods at the point of production to reflect their disposal costs. The policy may be easier to administer than retail charges and would give producers and ultimately consumers a clear incentive to favour recycled over virgin materials.

A problem with these policies is that any variation on disposal costs within the products geographic market will mean that the tax will inaccurately reflect local disposal costs. Some evidences at least for the United States, indicate that low income households are more likely to purchase small sizes packaged goods that to buy in bulk perhaps because they lack storage space or can't afford to tie up their limited funds in stored foods. Thus, low-income households may purchase more packaging per unit of product than high-income households, which suggest that retail and virgin material taxes would be regressive.

Well-intentioned government policies that influence prices may have unintended and undesirable consequences on the quality and scope of municipal solid waste management. In India, Indonesia and other developing countries, for example, governments subsidize the produc-

tion of chemical fertilizers, thereby stifling the development of agricultural markets for compost. Yet compost not only cuts down on fertilizer use, but also reduces runoff pollution by enhancing the ability of soil to prevent fertilizer from leaching out after rainfall.

Law Enforcement

The power available at present, in most of the developing countries to the local authorities are not adequate to implement efficient solid waste management strategies and also the local authorities should be given sufficient incentives in the form of capital, land, and technical assistance in order to develop and implement solid waste management strategies in sustainable manner. Law enforcement should be coupled with these incentives in order to ensure compliance; a reasonable percentage of the total budget should be allocated by the local authorities annually for further implementation of efficient solid waste management strategies. Especially government authorities should have enough power to implement policies to dispose the solid waste, and policy makers can create incentives that indirectly affect municipal solid waste disposal behaviour. For example, policy makers in industrial countries frequently

1. Private Sector Participation
2. Education and Awareness

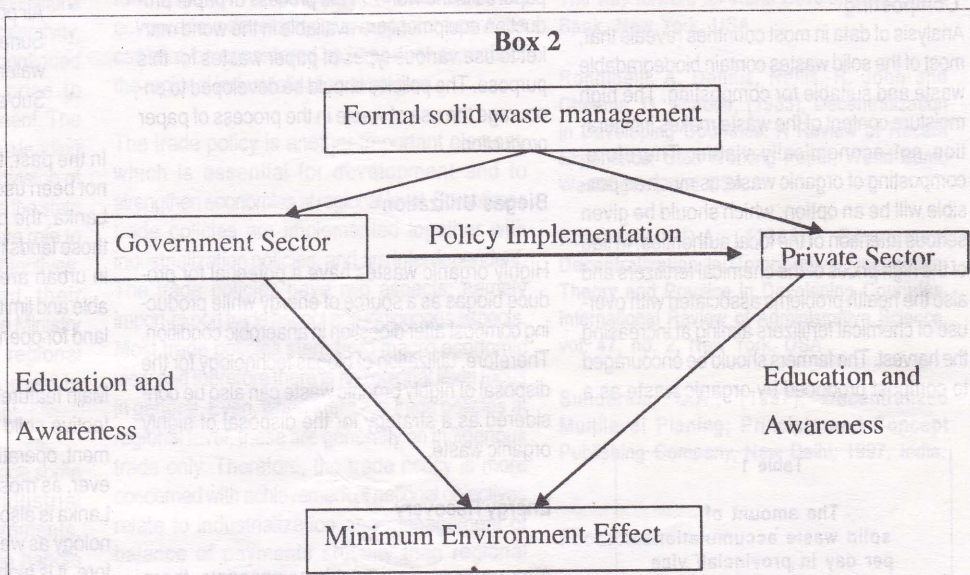
Private Sector Participation

Private sector participation in solid waste management is an essential component to encourage. The existing recycling industries should be encouraged to participate more in the development of infrastructure facilities in collection and transportation on waste. Contribution of the private sector can be summarized as follows:

- (a) Involvement in recycling activities
- (b) Provide infrastructure facilities
- (c) Participation in the development of infrastructure facilities
- (d) General awareness creation

Education and Awareness

Education and awareness creation at national, Provincial and local authority level is an essential component to ensure the implementation of national strategy for solid waste management. Education and awareness programmes should be launched through school, community, organizations, universities, women's societies to encourage, reuse and recycling of



face local resistance to the siting of municipal solid waste disposal facilities. So-called NIBY (Not In my Back Yard) activism may also arise in developing countries.

Non-Market Based Policy Instruments

Non-market based policy instruments can be divided into two categories.

Reduce the quantity of solid waste that is to take measures to minimize the amount of garbage collected in the city. Following instruments can be used for that purpose:

waste, sorting of waste at household level and disposing of waste in an environmentally sound manner. Education and awareness creation should be a continuous activity for the sustainable solid waste management in the country.

Cooperation and the participation of the community by education and awareness programme in solid waste management are essential to implement any solid waste management strategy. Solid waste is generated by each and every individual. On the other hand, the public displays strong emotion on the environ-

mental and health impacts of mismanagement of solid waste. In general, the public looks at solid waste management as a function of local authorities without considering the important role that can be played by them to ensure solid waste management in an environmentally sound manner, which in turn reduces their health costs. Reduce, reuse and recycling of waste cannot be performed without active participation of the community. Therefore, community participation should be encouraged through education and awareness creation as much as possible. Positive cooperation of the community in solid waste management will help the community itself to live in a healthy environment, which is the most important factor in our lives.

Using the collected waste to produce certain goods and earn an income by reusing them. Under this, following instruments can be used for that purpose:

- * Composting
- * Recycling of glass waste
- * Recycling of waste paper
- * Energy recovery
- * Biogas utilization

Composting

Analysis of data in most countries reveals that, most of the solid wastes contain biodegradable waste and suitable for composting. The high moisture content of the waste makes incineration not economically viable. Therefore, composting of organic waste as much as possible will be an option, which should be given serious attention of the local authorities. In lieu of the high prices of the chemical fertilizers and also the health problems associated with over-use of chemical fertilizers aiming at increasing the harvest. The farmers should be encouraged to compost produced by organic waste as a

soil conditioner. However, it should be noted that the quality of the compost will depend mostly on the degree of contamination type of the organic waste. In order to increase the market for composting, arrangements shall be made through the proper authorities to encourage agricultural sector to use compost as a soil conditioner.

Recycling of Glass Waste

Recycling of waste also helps to reduce and reuse the amount of waste at a considerable extent making final disposal manageable. Use of broken glass helps glass industry to reduce the production cost, as it requires lower temperature in its production process when waste glass is used. The amount of raw materials required for glass production also will be reduced facilitating to save of natural resource. eg. At present In Sri Lanka, Ceylon Glass Company uses 40% of (waste glass) in its process of production. The company has facilities to go up to 60% if waste glass is available.

Recycling of Waste Paper

At present technology exists for the use of waste papered in the world. In the process of paper production equipment are available in the world market to use various types of paper wastes for this purpose. The policies should be developed to encourage the use of waste in the process of paper production.

Biogas Utilization

Highly organic wastes have a potential for produce biogas as a source of energy while producing compost after digestion in anaerobic condition. Therefore, utilization of biogas technology for the disposal of highly organic waste can also be considered as a strategy for the disposal of highly organic waste.

Energy Recovery

After removal of recyclable components, there may be a considerable amount of garbage left behind which could be utilized for the generation of electrical and thermal energy. The utilization of combustible materials for energy recovery would be a better option prior to land filling if economically feasible. Special attention should be paid to control air pollution when incineration is used for waste disposal. A large sanitary landfill has the potential for landfill gas recovery as a source of energy.

According to the above analysis, it is clear that the solid waste management should not be a responsibility of the government alone. It is the responsibility and obligation of all sectors including the

government, public, private sector and community groups at various stage. The cooperation of all sectors in solid waste management shall be obtained by promoting all concerned through education and awareness creation countrywide.

Current Situation in Sri Lanka

Solid waste has been becoming a major problem in Sri Lanka as a developing country, new industries will be developed and relatively low technologies are used to manage solid waste. Open dumping is the commonest method practiced in Sri Lanka to manage solid waste. Dumping is the commonest way of disposal of municipal solid waste in cities and municipalities in the third world generally the are found on the outskirts of the urban areas, turning into source of contamination due to the incubation and proliferation of flies, mosquitoes and rodents. That in turn is disease transmitters consequently.

Dumping sites have very high economic and social cost to the public health services, which is yet to be estimated by the governments. In addition to these sanitary problems, open dumping also has caused following negative impacts.

- * Air pollution
- * Surface water pollution and ground water pollution
- * Sub soil pollution

In the past, there were many lands that have not been used for any special purpose. In Sri Lanka, the people and government also use those lands to dump waste but now, especially in urban areas, land has become very valuable and limited resource and it is difficult to find land for open dumping.

Main features that is involving efficient and effective solid waste management are investment, operational cost and technologies. However, as most of the developing countries, Sri Lanka is also suffering from the barrier of technology as well as high operational cost. Therefore, it is high time to implement a formal solid waste management system by both considering, reduce and reuse of the solid waste.

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Table 1

The amount of solid waste accumulation per day in provincial/ vice

Province	Amount of waste Tons/per day
Western	1,448
Southern	144
Central	223
Sabaragamuwa	81
Wayamba	89
Uva	170
North Central	33
Northern	223
Eastern	258
Total	2,669

Source: National Strategies for solid waste management.

introduced regionally within the broader national framework. The policy on the human resources development is based on the recommendation made by the Presidential Task Force Committee set up on education, technical and vocational training and health services. The human settlement policies include housing, environment activities, rural development activities etc.

The agricultural policies focus on macro economic view, which covers the domestic and plantation agriculture. This policy statement includes agriculture promotion directions, extension services, and education for provincial purposes and agricultural services, irrigation development and agricultural research related policies. The government attempts to develop the domestic agriculture sector also through the development of agricultural infrastructure, irrigation facilities and institutions for the delivery of credit, inputs, and extension services. The government time to time intervenes directly in price setting, purchasing and marketing of agriculture products. The government is also directly involved in the importation and distribution of food items. The present agricultural strategy is to increase agricultural productivity, improve farm incomes and ensure a continued supply of food at a reasonable price to consumers in a competitive environment. The private sector is also expected to play a leading role in production, marketing and provision of inputs such as planting materials, while the state sector is expected to play a supportive role to facilitate the achievement of policy objectives. These agriculture policies and their implementation are still handled by the Ministry of Agriculture, and therefore, the regional governments do not have enough room to intervene into agricultural development.

The Regional governments also manage some of the function pertaining to industrial development. The regional governments, accordingly, have the opportunity to handle regional industrialization strategies. However, central intervention is much higher than the regional involvement in industrial development. (Lakshman et al., 1998) pointed out that industrial policy is much more national than regional with respect to decision making, coordinating and implementation. These policies on industrial development are somewhat comprehensive. The current industrial policy has seven objectives; namely (a) Expansion, diversification and upgrading of industrial base, (b) Reorganizing of productivity improvement,

(c) Efficient management of physical and manpower resources, (d) Creation of employment and income generation, (e) Encouraging exporting oriented industries, (f) Focusing on export market and relying more on the private sector and (g) Promotion of regional industrialization in order to the Ministry of Industrial development.

Comprehensive policy measures are introduced to achieve these objectives at national and regional level. The need for regional industrialization has been accepted at the policy level, according to the Ministry of Industrial Development, at least in two respects; firstly, it expects to reduce congestion in and migration to the centre (to main cities), particularly to Colombo and secondly, regional industrialization to provide opportunities for the rural economy where unemployment is widespread (Lakshman et al., 1998). Moreover, the industrial policy has recognized the private sector as the 'engine of growth' and its participation in formulation and implementation of policies relating to the industrial sector is encouraged. The direction for the regional industrialization is provided by the Regional Industrial Committees of the Provinces and they focus on infrastructure development and preparation of guidelines for the establishment of Provincial industrial estates. Furthermore, identification of potential growth centres, entrepreneur development and special incentives can also be considered as important aspects of the regional industrialization strategies.

The trade policy is another important element, which is essential for development and to strengthen economies at regional level. Sometimes trade policies are implemented together with industrialization policies, and are interdependent. The trade policies have two aspects, namely import-export trade aspect and indigenous aspects. Most trade policies stem from macro economic view and therefore there is no regional level focus in general. Even, when there are trade policies at regional level, these are generally on indigenous trade only. Therefore, the trade policy is more concerned with achievement of national objectives relate to industrialization and management of balance of payments stability than regional objectives. However, there are some gains at regional level with the development of the national trading system and export oriented trade development. According to the 13th Amendment to the Constitution, foreign trade inter-province trade and commerce are reserved for the central authority. The policies are built up within this context. Therefore, there is only an insignificant effort to trade development under the regional government and it is largely handled and managed by national policies to achieve national economic development.

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Footnotes

- 1 Functions of PC are specified in list I of the 9th schedule to the 13th Amendment and list II contains those powers, which are reserved exclusively for the central government, and list III is the concurrent list on, which both the centre and the provinces can legislate, with the centre prevailing over the provinces in cases of conflict.
- 2 A provincial council is vested with the following powers:

1. Make statutes on any matters set out in list I or II;
2. Be consulted in respect of laws presented in parliament on matters in list III;
3. Request Parliament to make law on any matter set out in list I;
4. Provide grants for services during a financial year from the provincial fund by statute.

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