

FEATURES

URBAN SERVICES AND SHARE MARKET OPERATIONS IN THE PROMOTION OF URBAN REGIONAL DEVELOPMENT

An Analysis of the Share Issues in the Post - 1980 Period in Sri Lanka

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The increasing activity in Colombo's capital market, after 1980, is associated with signs of the growing sophistication and the availability of professional services which have supported this trend. In this paper Professor Willie Mendis, Head of the Department of Town and Country Planning and Vice Chancellor at the University of Moratuwa attempts to assess the capacity of urban economic services to promote development. He uses the increased volume of share issues as an indicator and analyses this data to determine those sectors of the economy that have benefitted most. He arrives at the conclusion that share issues have facilitated regional development, while urban economic services contributed positively towards this situation.

BACKGROUND

The strategy for development in Sri Lanka has assumed the form of a larger reliance on public investments in three "lead projects" comprising the Accelerated Mahaweli Development Programme, the Free Trade Zone of the Greater Colombo Economic Commission, and the Urban Development and Housing Programme. These three "lead projects" are expected to provide the necessary capacity, stimulus, and momentum to generate a host of associated activities in the sphere of economic development to uplift the living standards of the people.

In the above context, Urban Development has thus become a significant area for concentrated activity. The Government in 1978, established an Urban Development Authority "..... to promote integrated planning and implementation of economic, social and phy-

sical development of (designated) urban areas", (1) The Authority has been granted a wide range of powers to carry out its assigned functions and duties. It has already formulated plans (drafts), for some

urban areas and also exercises general control over building development in all areas brought within its jurisdiction.

(1) Urban Development Authority Law No. 41 of 1978, p.1

In addition, the Authority on its own has invested funds amounting to about Rs 2.2 billion upto the end of 1981 (2) most of the latter being on the construction costs of the Parliamentary Complex and

THE ON-GOING THIRD SHARE OUTCROP

The Paper published currently was written in December last year. Since then, the Author has continued to monitor the third share outcrop which began in December 1983. He has noted that a total volume of 74 million shares were on offer to date. It is less than the total offered in the second outcrop, but more than the total offered in the first outcrop. It is also significant to note that bigger ventures have been conceived with each outcrop. Thus, the largest single offer of 38.3 million shares was contained in the latter.

The decrease in the volume of shares on offer in the third outcrop is due to several reasons and should not yet be regarded as an irrevocable reversal of the upward trend in share issues noted in the first and second outcrops. Some of the reasons being the following:

- a) the July disturbances and its consequences on the economy
- b) the removal of certain tax incentives
- c) the inactivity of the Colombo Stock Exchange
- d) selectivity of investors in the type of venture

- e) the yet undeveloped structure of the urban capital market
- f) poor integration between investors and development promotion agencies

The Author further contends that the decrease in the volume of shares on offer has not reduced the interest of investors in "good" companies; some of whom did not even enjoy tax relief.

Thus, Bata Shoe Co. Ltd. have reportedly collected Rs 13 million of the requirement of 19 million. Three other issues were oversubscribed within three days of offer at a total value of about Rs 56 million.

Accordingly, the capability of urban economic services to promote development yet remains strong. What needs closer study are the linkages between its elements and those of the capital market. It reinforces the necessity for a fuller comprehension of investment, investment promotion, and the urban economic services in the context of a city development plan.

The Author proposes to analyse the situation further after the characteristics of the third share outcrop is more known.

Administrative Centre in the new capital city of Sri Jayawardenapura, Kotte. Furthermore, the Authority has sold outright and also leased prime property in Colombo and in other urban centres to developers of Office, Commercial, and Tourist complexes.

The sphere of urban development also received a boost with the granting of very attractive tax incentives, including a ten-year tax holiday and 100% investment relief for "approved property development". (3)

The activities in urban areas in the field of building construction and other physical infrastructure, have also been supplemented by those arising in these same areas from the general policies of the Government, particularly from liberalised trade, and the positive encouragement given for local and foreign investments in the country.

The cumulative impact of these several initiatives has been the gathering of momentum in the various urban development processes. The latter has included the expansion of the urban capital market and its associated services.

This was most evident in Colombo city which has become the epicentre of this growing momentum. The self-generating force of its initial phase has been most manifest in the gradual establishment of the several components of a capital market necessary to sustain a changing urban economy. Thus, twenty four new foreign commercial banks have opened Offices in Colombo. In addition, two exclusive Merchant Banks, six money broking firms, four leasing finance companies and one more Development Bank, have begun business in Colombo. There has also commenced some activity in the commodities/ futures market, in the city. (4) Further, a Colombo

Stock Exchange Ltd has been recently established to promote and develop the capital market. These financial institutions have in turn innovated various instruments to mobilise and distribute capital to those requiring it; the more notable of these being the Certificates of Deposits.

Another feature which has been significant in the expanding capital market scenario in the urban areas, comprise the successful issue of an unprecedented 170 million shares valued at Rs 1.7 billion, for public subscription. It is a phenomenon which has gathered momentum in the post - 1980 period in Sri Lanka. (5) It has thus become not only a means of capital mobilisation for various enterprises, but also an index of the growing capacity and capability of urban services to promote development in its own areas as well as in the rest of the country.

The present rate of success of the share issues, is an indicator of its inherent potential when share trading will eventually take place at high pitch when the Stock Exchange becomes active. The current issues have brought confidence to entrepreneurs and as such will activate the establishment of more ventures

In these circumstances Urban Planners have a triple interest in share issues. Firstly, they serve to strengthen the economic base of

- (2) Reported in the Ceylon "Daily News" of 22nd Feb. 1982.
- (3) Tax incentives for undertakings engaged in property development are granted under Section 22B of the Inland Revenue (Amendment) Act No. 24 of 1980. However, these incentives have been reduced for ventures formed after 31st March, 1983.
- (4) The ISLAND" Newspaper of 28 March 1983 has reported

the urban area which provides these services; secondly they provide a link between urban functions and the development of other areas where the actual projects may be located; and thirdly, they provide an urban development plan with the necessary entrepreneurial capacity for the realisation of its objectives.

Hence this Paper will analyse the share issues in the post - 1980 period in order to comprehend their characteristics in promoting urban development with private enterprise.

METHODOLOGY AND CONTENT

The methodology of study employed in this Paper has been to monitor the share issues as known through the Brokers Association of Sri Lanka and also advertised in the daily Press. In this connection, the issues have been studied according to their appearance in two clearly identifiable "share outcrops"; the first being from February 1980 to May 1982, and the second from December 1982 to March 1983. Both outcrops appearing after the designation by the Government in 1979, of Urban Development as a "lead project" in its Public Investment Programme.(7)

The Prospectus of each issue has also been utilised for analysis in this study.

that the Government is considering (through its Export Development Board), the establishment of a Commodities Exchange in Colombo.

- (5) The "Observer" Newspaper of 21 March 1983 noted that "while only two companies issued shares to the public in 1975, the boom began in 1980 and continued thereafter when there was a sudden upturn in the share market.

This Paper has analysed the share issues in the context of their composition by type of investment, volume of shares issued, and its monetary value. It has also included an analysis of the actual location of the projects contained in the share issues, and the trends in the numbers of issues being made over time.

OBJECTIVES OF PAPER

The principal objectives of this Paper comprise the following:

- i) to ascertain the trends in the capacity of urban eco-

nomie services to promote development using the volume of share issues as an indicator;

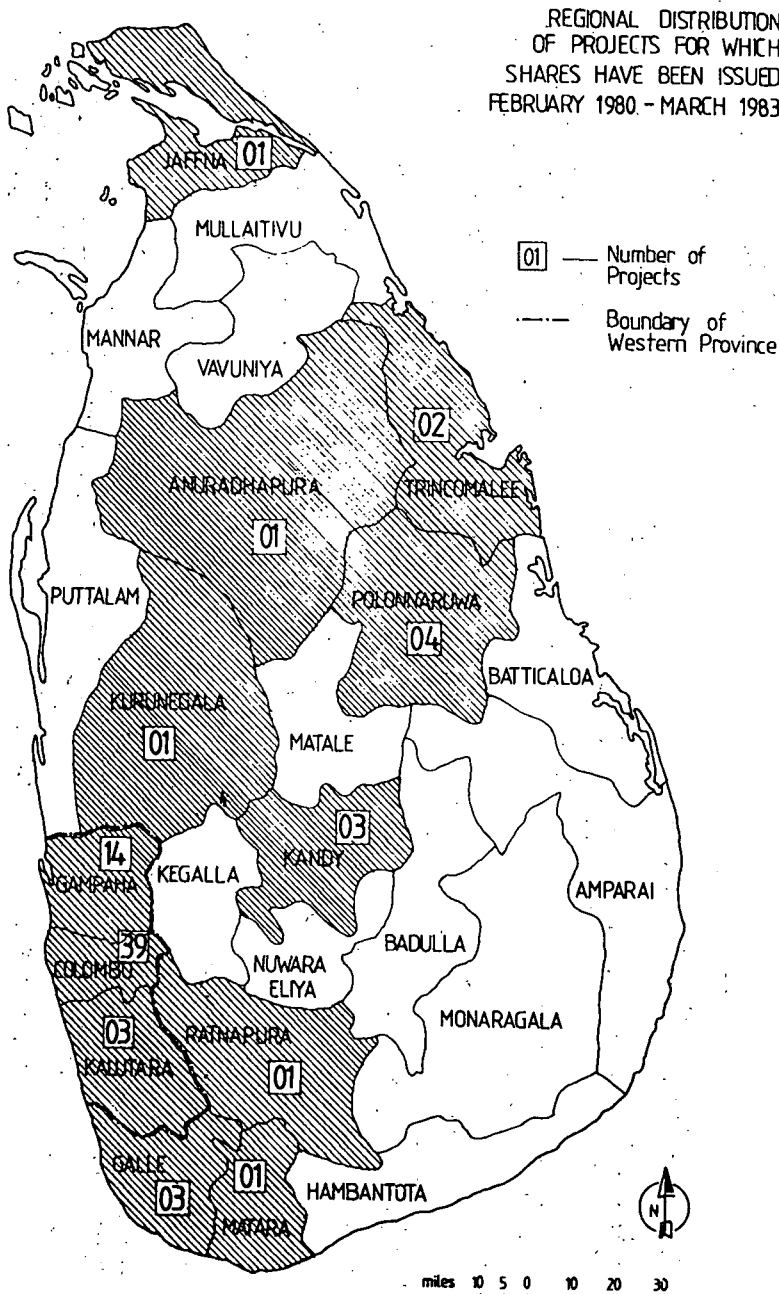
- ii) to determine the sectors of economy benefitting from the expanding urban services as reflected in the composition of share issues;

- iii) to analyse the effect upon regional development through urban services, as reflected in the actual location of the projects contained in the share issues;

- iv) to determine the nature of urban financial services and its requirements in the urban physical fabric, particularly in Colombo city, that would encourage private enterprise in promoting urban development;

- v) to generally contribute to the fund of knowledge in the urban development processes which would facilitate improved urban planning and development in Sri Lanka.

MAP 1



SHARE ISSUES IN THE CONTEXT OF URBAN ECONOMIC SERVICES

Occupational specialisation as found in the urban areas are more

- (6) The infant Stock Exchange, although established, is not yet active.
- (7) The "lead projects" were first mentioned in the "public Investment Programme 1979-1983" published by the Ministry of Finance & Planning in February 1979

pronounced in the large cities. Thus, Colombo, offers a wider range of economic services than other urban centres in the country.

It can also be stated that after, 1978, with the introduction of liberalised economic policies, there has been a substantial expansion in the nature and magnitude of these services in Colombo. The latter has been most noteworthy in activities associated with the capital market.

The enhanced capital market activities in Colombo have also been associated with signs of sophistication and with the availability of matching professional services to support them. Thus, as mentioned previously, the Stock Exchange, Merchant Banks, Foreign Currency Banking Units, Money Broking

firms, Leasing Finance companies, and other similar institutions have begun to operate in Colombo. In addition, new kinds of financial instruments such as, Certificates of Deposits, Bearer Bonds, and Special Deposit Certificates, have also been offered to the public. In this overall situation, the base of urban economic activity has expanded substantially, and has had a direct impact generally on national development.

In the above context, the activities of the share market, in the post - 1980 period, comprise the most remarkable from amongst the spectrum of urban economic services that have evolved. As will be discussed later in this Paper, not only has it led to the mobilisation of a large volume of funds for investment in approved development

projects, they have also become an integral part of the new structure of urban economic services. Thus, an increasing number of Companies have been quoted in the share market in Colombo. (See Figures 1 (a) & 1 (b))

The share issues have also been accompanied by the emergence of a host of associated services in the urban capital market.

In particular professional services have expanded considerably in Colombo. They, in turn, have generated growth in the "Services" sector of the G.N.P. Hence, in addition to capital mobilisation, the share issues in the context of urban economic services, have demonstrated the capability and capacity of urban centres to contribute to economic growth.

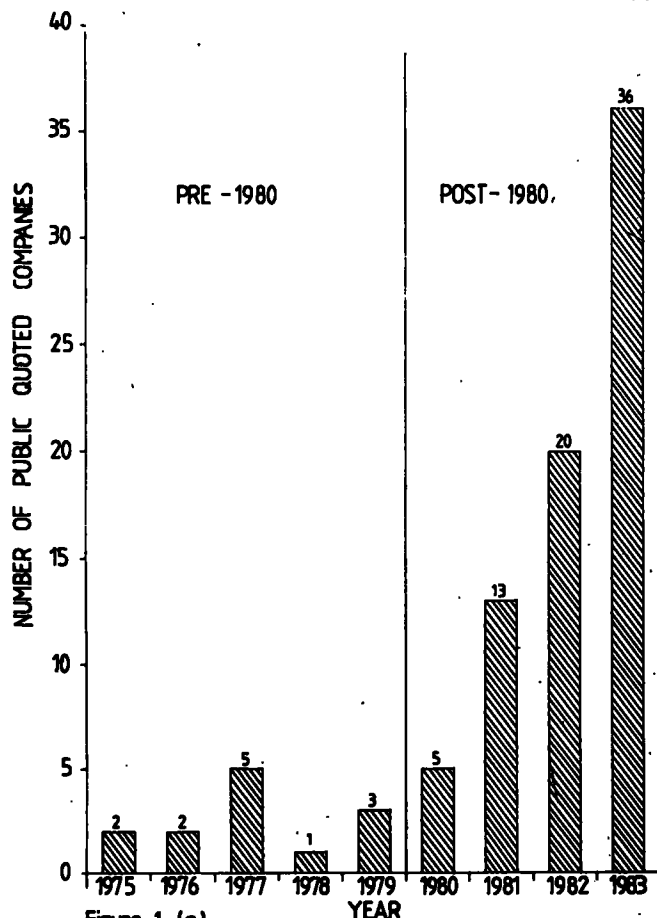


Figure 1 (a)
SCHEMATIC REPRESENTATION OF THE NUMBER OF PUBLIC QUOTED COMPANIES IN THE PRE 1980 & POST 1980 PERIODS

YEAR	NUMBER OF PUBLIC QUOTED COMPANIES DURING EACH YEAR
1975	2
1976	2
1977	5
1978	1
1979	3
1980	5
1981	13
1982	20
1983 (end March)	36

PATTERN OF COMPANIES QUOTED IN THE PUBLIC SHARE MARKET, Sri Lanka 1975-1983

Figure 1 (b)
PUBLIC QUOTED COMPANIES BY YEARS - 1975-1983 Sri Lanka

SHARES ISSUED IN 1980-1983

It will now be relevant to analyse the volume of shares issued in the period 1980 - 1983.

The increase in the volume of shares issued represent a good indicator of the capacity of the urban economic services to promote development. In this connection, it can be noted that from a situation of near non-existent issue of shares during the pre-1980 period, there was a sudden deluge of shares issued and subscribed in the period 1980 - 1983. The latter was clearly observed as belonging to two "share outcrops"; the first occurring from February 1980 to May 1982 (ie 27 months), and the second occurring from December 1982 to March 1983 (ie 4 months).

In the periods referred to above, a total of 169,272,289 shares were issued to the public as follows;

1st outcrop (Feb. 1980 to May 1982) ... 67,105,052
2nd outcrop (Dec. 1982 to March 1983)..102,167,237

Many of these share issues came into the market in the first

quarter of each calendar year. The latter is co-terminus with the last quarter of the "tax year".

Hence, it can be generally inferred that the fiscal incentives attached to each share issue has been a significant influencing factor for its actual subscription.

It can also be noted from the statistical data given previously, that there has been more than a 50% increase in the numbers of shares issued between the two outcrops. Figure II provides a graphic representation of the monthly pattern of the two share outcrops, by quoted volume of shares.

Furthermore, it is noteworthy from Figure II, that there is an upward trend in the pattern of the volume of share issues; especially when considered in terms of the peak volumes.

The study of the two share outcrops by individual share issues also indicate that very large share issues have been dealt with in the post - 1980 period. Thus, an issue of 21,999,993 shares was included in the first outcrop, and an issue of 16,000,000 shares, was subscribed

in the second outcrop. These volumes are of a magnitude, unheard of in previous times.

However, it is also significant to note that the composition of share issues of both outcrops, show that there exists characteristics of the "early stages" of economic development. Accordingly, it can also be seen from Table I that a large proportion of the share issues are relatively small in volume; ie. less than one million shares in each issue. The latter therefore being suggestive of the smallness of each venture - typical of the early stages of development.

Nevertheless the large increase in the total volume of shares issued, is an indicator of the growing capacity of the urban economic services to promote development. It indicates further potential in the latter due to the yet undeveloped structure of the capital market.

ANALYSIS OF SHARE ISSUES BY BENEFITTING SECTORS

It is relevant in the context of the objectives of this Paper to analyse the share issues by the sectors of the economy which benefitted

TABLE I

COMPOSITION OF SHARE ISSUES BY VOLUME

VOLUME OF SHARES BY CATEGORY (NO OF SHARES)	01	50,000	100,000	250,000	500,000	01	2.5	5	above
	to 49,999	to 99,999	to 249,999	to 499,999	to 999,999	million to 2.5 million	million to 05 million	million to 10 million	10 million
1st Outcrop	01	04	07	06	08	05	00	02	02
NUMBER OF ISSUES IN EACH CATEGORY									
2nd Out crop	03	02	06	08	08	01	01	04	04

Note: Number of Share Issues in 2nd Outcrop includes three rights issues.

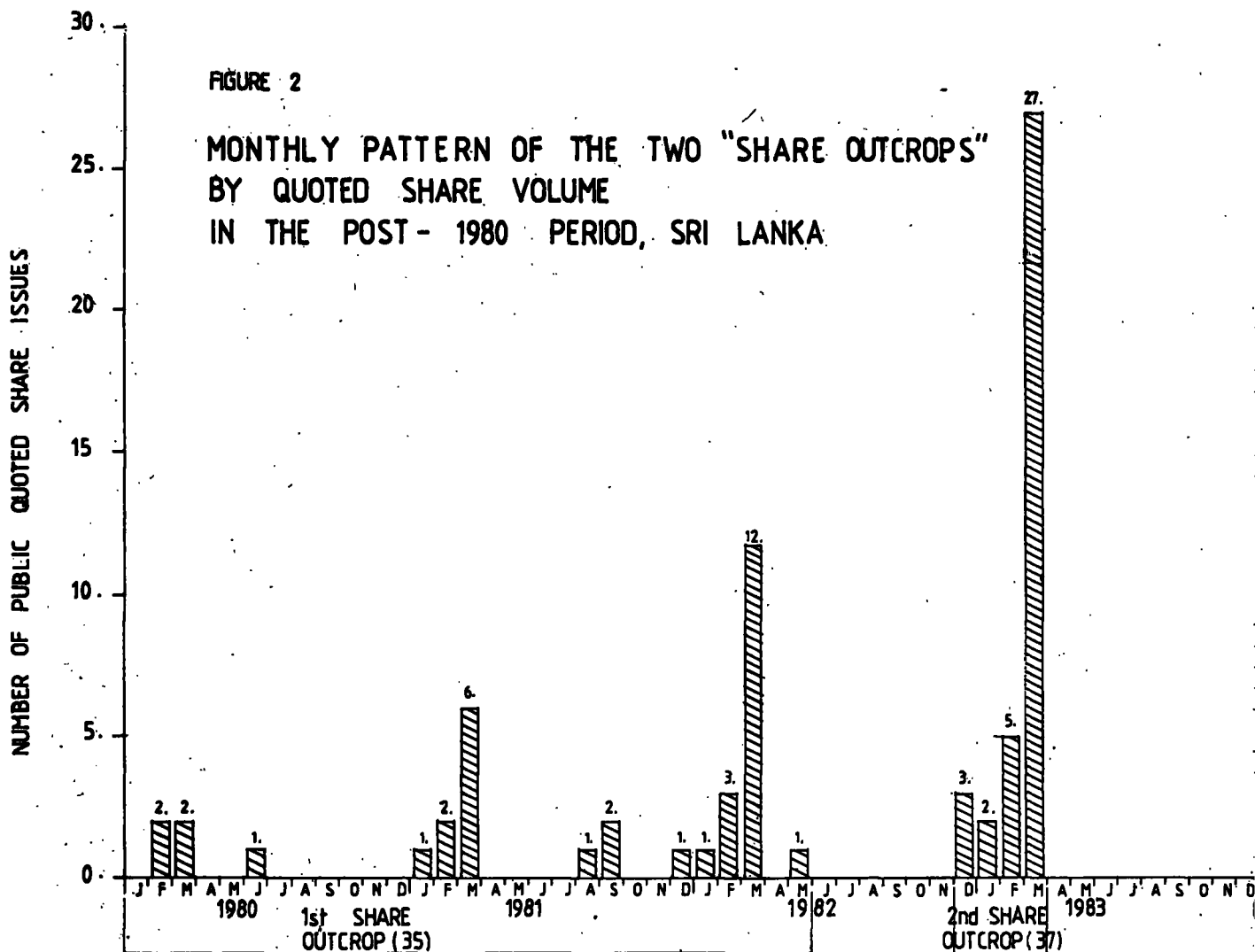


TABLE 2 (a) FIRST SHARE OUTCROP

Number	COMPANIES		TYPE OF VENTURE	SHARE ISSUES		VALUE (RS)	
	Number	% of Total		Number	% of Total	Amount	% of Total
15	42.86		Manufacturing	17,752,284	26.45	177,522,840	26.24
03	8.57		Office/Commercial	31,199,998	46.49	311,999,980	46.11
12	34.29		Tourism	17,160,736	25.57	177,206,560	26.19
02	5.71		Engineering	112,034	0.17	1,120,340	0.17
01	2.86		Finance	600,000	0.80	6,000,000	0.89
02	5.71		Trading/Services	280,000	0.43	2,800,000	0.40
NIL	0.00		Others	NIL	0.00	NIL	0.00
35	100.00		TOTAL	67,105,052	100.00	676,649,720	100.00

from same, It will show the impact of urban economic services by different sectors.

Thus, Table 2 (a) Table (b) show that "Manufacturing", "Tour-

ventures, it captured only 26.24% of the share value.

The situation in the second outcrop is better levelled. Thus, "Manufacturing" comprised 50% of

distribution of the ventures for which share capital was raised. It shows that in both share outcrops, there was a wide spread of districts that benefitted by the successful issue of shares. Thus, 12 out of a

TABLE 2 (b) :

2ND SHARE OUTCROP

COMPANIES		TYPE OF VENTURE	SHARE ISSUES		VALUE (RS)	
Number	% of Total		Number	% of Total	Amount	% of Total
20	50%	Manufacturing	33,810,582	33.09%	338,105,820	30.99%
2	05%	Office/Commercial	10,012,000	9.80%	101,200,000	9.28%
11	27.5%	Tourism	50,556,321	49.48%	505,563,210	46.34%
2	05%	Engineering	5,040,000	4.93%	50,400,000	4.62%
2	05%	Finance	1,500,000	1.47%	78,000,000	7.15%
2	05%	Trading/Services	220,664	0.22%	2,206,540	0.21%
1	2.5%	Others	1,027,680	1.01%	15,415,200	1.41%
40	100%	TOTAL	102,167,237	100 %	1090,890,770	100 %

Note: Number of Companies which issued shares include three which offered rights issues.

ism" and "Property Development", comprised the largest number of ventures for which shares were issued in both outcrops. Of these categories, "Manufacturing" dominated both outcrops in terms of numbers of companies.

On the other hand, an analysis by volume of shares issued indicate, that "Property Development" dominated the first outcrop, and "Tourism" dominated the second outcrop. Accordingly, they also captured the largest capital in each outcrop. (See Tables 2 (a) & 2 (b))

It is yet interesting to note that by value of shares issued in the first share outcrop, although "Property Development" ventures comprised only 8.57% of the total number of ventures, it captured 46.11% of the share value. In contrast, although, "Manufacturing" ventures comprised 42.86% of the total number of

the total ventures, and captured 30.00% of the share value. In contrast, "Tourism" comprised 27.5% of the total ventures, and captured 46.34% of the share value.

In overall terms, it is thus significant to note that the share issues contributed to several types of ventures. The latter included ventures which used "agriculture" as a base. However, a larger share of the types of ventures possessed an urban bias.

It is now useful to analyse the share issues by the actual siting of the ventures to ascertain the locational impact of urban economic services on development. The latter is discussed in the next section of this Paper.

IMPACT OF SHARE ISSUES BY LOCATION OF VENTURES

Table 3 indicates the regional

total 24 districts benefitted (see: Map 1).

The district of Colombo captured 52% of the total number of projects, with the adjacent districts of Gampaha and Kalutara accommodating a further 19% and 4% of the projects, respectively.

Thus, the Western Province received 75% of the total number of ventures for which share capital was raised.

The above situation corresponds to the availability of match-services and population market catchments in the Western Province.

However, it is yet encouraging to note that many outlying districts also benefitted as a result of the projects realising capital through the successful issue of shares.

The total value of shares issued for projects located in districts out-

TABLE 3
REGIONAL DISTRIBUTION OF PROJECTS FOR WHICH
SHARES HAVE BEEN ISSUED

DISTRICT	% SHARES OF DISTRICT POPULATION (1981)		NUMBER OF PROJECTS FOR WHICH SHARES HAVE BEEN ISSUED		
	URBAN	RURAL	1st OUT CROP	2nd OUT CROP	TO- TAL
Colombo	74.3	25.7	19	19	30
Kalutara	21.4	78.6	01	02	03
Kandy	13.1	86.9	01	02	03
Matale	10.6	89.9	01	02	03
N'Eliya	7.3	92.7	NIL	NIL	NIL
Galle	20.6	79.4	01	02	03
Matara	11.1	88.9	NIL	01	01
H'Tota	9.8	90.2	NIL	NIL	NIL
Jaffna	32.6	67.4	01	NIL	01
Mannar	13.5	86.5	NIL	NIL	NIL
Vavuniya	19.3	80.7	NIL	NIL	NIL
B'Caloa	24.0	76.0	NIL	NIL	NIL
Amparai	13.8	86.2	NIL	NIL	NIL
Trincomalee	32.4	67.6	01	01	02
K'Gala	3.6	96.4	NIL	01	01
Puttalam	12.5	87.5	NIL	NIL	NIL
A'Pura	7.1	92.9	NIL	01	01
P'naruwa	7.9	92.1	04	NIL	04
Badulla	8.0	92.0	NIL	NIL	NIL
Moneragala	2.2	97.8	NIL	NIL	NIL
Ratnapura	7.4	92.6	NIL	01	01
Kegalle	7.8	92.2	NIL	NIL	NIL
Gampaha	27.8	72.2	07	07	14
Mullaitivu	9.3	90.7	NIL	NIL	NIL
SRI LANKA			36	37	72

side the Western Province, comprised Rs. 295 millions.

The overall impact of the location of projects thus suggest that the share issues in both outcrops did facilitate regional development. Hence, urban economic services did contribute towards this situation, reinforcing the concept of urban-rural complementarity. The latter could specially be developed through the capital market.

CONCLUDING COMMENTS ON THE DEVELOPMENT OF URBAN ECONOMIC SERVICES

It can be seen from the preceding discussions that in the post-1980 period there has been a desire by a large number of enterprises to engage in ventures with capital raised by the public issue of shares. The latter had been possible due to the host of professional and other services that had developed in Colombo. In particular, the financial services, including Banking, had contributed in a large measure to-

wards this process.

The initial issue of shares now need to be actively followed up with the development of share trading through the recently established Colombo Stock Exchange. The increased activity in the share market cannot be sustained by the conventional Brokers Association. A modern urban economy needs a comprehensive structure of financial institutions, including a Stock Exchange. Such an organised form of urban economic services will then facilitate sustained urban development that can also serve as a complement to further rural and regional development.

In the above context, Urban Planners need to recognise the physical planning inputs to assist the smooth functioning of urban economic services. In the latter connection, the development of a "financial district" in city plans is considered vitally necessary. Such a "district" must include the Stock Exchange and also convenient access to national and international communication networks.

Colombo city has the capacity and capability to accommodate a "financial district". Already a concentration of banking and other financial activity have begun to take shape in Fort. The hub of Telecommunications, and the Chamber of Commerce, are also in this vicinity. It is therefore ideal to locate the Stock Exchange in this same area; a likely premises for this purpose being "Transworks House", opposite the Central Telegraph Office.

Urban Planners have thus recognised the importance of the urban capital market as an integral part of their considerations. They view the share issues as a vital component of such a market. It is therefore timely for those specialists associated with urban economic services and Urban Development Planners to work very closely with each other.