

Putting Entrepreneurship at the Heart of Economic Revival in the North and East¹

Introduction

Entrepreneurship is about putting ideas into action. It is the function of scientists to invent and the entrepreneurs to innovate. Whereas scientists invent (or dream of) ideas, it is the entrepreneurs who materialise those ideas into consumable products (innovation), i.e., tangible goods and intangible services. Today, I am going to spur your minds with the power of ideas as opposed to power of numbers.

In the past six months, Sri Lanka went through the ritual of elections. As usual, our politicians have outperformed each other with facts and figures about what a marvellous country we live in (or lack thereof) and how they are going to make Sri Lanka even better place to live in. For both the governing party and the main opposition party, economic development would be the heart of government. I have no disagreement with putting development at the heart of government. My disagreement is with the ways and means of spurring economic development that were propounded by both the main political parties in the country.

It is not only the government (politicians as well as the bureaucrats) that lacks innovative ideas to unleash the full potential of the Sri Lankan people; our development partners (bilateral and multilateral donors) and non-governmental organisations as well lack innovative ideas to rebuild a war-torn economy by learning from the experiences of other countries that have undergone such experiences.

In spite of recording the second lowest growth rate (3.5%) in the past decade (2000-2009) (the lowest being in 2001: (-) 1.5%) and third

lowest growth rate in South Asia (after Maldives: (-) 3% and Pakistan: 2%) and other macroeconomic vulnerabilities in 2009, the prospects for the Sri Lankan economy are pretty good. The end of the protracted civil war and a stable government with an invincible majority in parliament has removed two structural impediments (i.e., political and security) to economic take-off in Sri Lanka. However, what are lacking are a robust growth strategy and an optimal policy framework to implement the envisioned growth strategy.

Despite a high intensity civil war, Sri Lanka's growth in quantitative terms is remarkable in comparison to countries under similar circumstances. However, the quality (or the source) of such growth is the cause for concern. In 2009, Afghanistan's growth rate of 15.1% was the highest in South Asia and one of the highest in the world (in fact, in the past several years Afghanistan has recorded double-digit growth rate annually). However, foreign aid accounted for 40% and poppy plants and opium trade accounted for another 40% of the Afghan economy³. Is this the kind of economy that would secure Afghanistan from war and poverty? Therefore, it is imperative, especially in war-times and post-war times, to look beyond the numerical rate of economic growth and identify the source/s (or quality) of growth to determine the success or otherwise of the economic model/strategy pursued.

Sri Lanka's growth during the times of war has been largely fuelled by the growth of the public sector; both the civilian public administration and the security forces. That is, the increase in the number of personnel in public services and frequent pay rises to public sector employees were the main sources

Dr. Muttukrishna Sarvananthan²

*Principal Researcher,
Point Pedro Institute of
Development,
Point Pedro.*

of economic growth in the past five years (2005-2009)⁴. Productivity in the public sector is too low and the cost of the public sector is too high. The total public debt has almost doubled between the end of 2004 (LKR.2140 billion) and end of 2009 (LKR.4161 billion or 86% of the GDP) and the budget deficit was almost 10% of the GDP in the fiscal year 2009. Politicians who brag about doubling of per capita income between 2004 (USD.1,100 per year) and 2009 (USD.2,100 per year) have never highlighted the doubling of public debt during the same time period. Moreover, bulk of the rise in public expenditure was for public consumption rather than public investment. Public expenditure fuelled growth is wealth diversion rather than wealth creation.

In the same way as the economic growth strategy at the national level, the government's post-war economic revival strategy both in the East and North has been overwhelmingly based on government-funded projects with majority financial contributions from the bilateral and multilateral donors. For the four-year period (2007-2010), the budget provision for the Eastern Reawakening Programme (*Nagenahira Navodaya*) was a total of LKR.197 billion (USD.1.75 billion); 52% of this amount was to be financed by foreign aid, nearly 30% by the Government, and the rest 18% by the private sector. Similarly, the development programme for the North (*Uthuru Vasanthaya* and other projects) has been earmarked a total sum of LKR.7 billion thus far (foreign funding accounting for

40.5% and the rest by the Government)⁵.

Both at the national and regional levels, there is a heavy emphasis on government-funded and government-driven development strategy, which is a cause for concern because of the limited fiscal space available to the government, low (or less than optimal) productivity of the public sector, and the perpetuation of dependency on foreign donors and the non-governmental sector for delivery of goods and services to the people. Now let us look at some of the economic activities undertaken by the government in the North which could be more productively and profitably done by individual entrepreneurs in those regions.

Businesses of the Government Road transport

The end of the war in May 2009 and the subsequent opening-up of the A9 highway have created opportunities for individual entrepreneurs and private transport companies to operate passenger and cargo transport services to and from Jaffna and other towns in the North. At the earlier stage, the government monopolised the passenger transport services through the use of Sri Lanka Transport Board (SLTB), which is a perpetually loss-making State-owned enterprise. Though, since the beginning of this year, private bus operators have been allowed to operate bus services, the government buses continue to operate along with the private buses.

The inter-city bus services operated by the SLTB have curtailed the local services within the Jaffna peninsula and other major towns in the North, because hardly any new buses were made available for the new routes. Curtailment of local bus services has restricted the mobility of people and goods to the local markets; thereby stifling economic growth.

Leaving the passenger transport sector entirely in the hands of the

private sector could have created new entrepreneurs in the formerly war-torn areas and provided new employment opportunities to local youth; the most vulnerable group in the population. Furthermore, it would have reduced the losses made by the SLTB and thereby contributed to reduction in public expenditure.

Food and beverages

Another folly of the government is to let the army establish and operate tea boutiques and snack bars along the A9 (from Omanthai to Mirusuvil) to cater to the passenger traffic. As you are aware, thousands of passengers travel daily along the A9 highway on both directions. It provides a good business opportunity to people living along or near the A9 highway to set-up refreshment boutiques to serve the passing traffic.

Instead, bulk of those refreshment stalls is run by the Sri Lanka Army (SLA) and a few in places like the Murukandy temple are run by local multi-purpose cooperative societies (MPCS), which are perpetually loss-making local government welfare shops. The income earned by these army and cooperative society boutiques hardly contribute to economic growth in those remote areas. Instead, it unnecessarily diverts the valuable time of the armed forces personnel and cooperative society personnel to this mundane function. These public service personnel are paid by the government not to prepare and serve tea, coffee, snacks, or meals to passing travellers. Their salary is much higher than what would be required for such a job. Therefore, it is an economic loss to the government and the country.

Alternatively, if the local people, who have recently returned from welfare camps, were allowed and facilitated (with appropriate loan facility) to undertake these businesses, it would have created new jobs, boosted the incomes of their households, and increased the money circulation within the

local impoverished communities. Individual entrepreneurs from outside those areas could also be encouraged to set-up roadside boutiques to serve the passing traffic, which would have boosted the local economies. Of course, few returnees have put up makeshift boutiques to sell soft drinks, biscuits, chocolates, and other refreshments along the A9 highway. However, they should be encouraged and facilitated to put up bigger stalls.

Domestic air transport

With the 24-hour opening of the A9 highway since the first week of January 2010, the market for air travel to and from Jaffna has dropped dramatically. This has paved the way for the Sri Lanka Air Force (SLAF) to monopolise domestic air services through its commercial wing, viz. Helitours; thereby driving the private sector out of the domestic air travel and freight markets. These developments are not conducive for curtailing public expenditure or promoting private enterprises.

I doubt that domestic air transport to and from North and East is commercially viable given the current policy framework. If this is so, why should the SLAF made to incur losses? Instead, I would suggest that larger private budget airlines should be facilitated to operate the domestic air passenger market. With the upgrading of the Pallaly airport in Jaffna, not only the domestic air travel, but air passenger services to India could also be promoted.

Hospitality trade

The proposed three-star hotel construction in Nallur (a suburb of Jaffna town) by a state-owned financial institution (Mercantile Bank of Sri Lanka (MBSL); a subsidiary of State-owned Bank of Ceylon) is another blow to spurring private enterprises in the formerly war-torn areas. It is doubtful that MBSL is competent to manage a commercial venture in the hospitality market.

Instead of undertaking to build the hotel itself, MBSL should have called for expressions of interest from private entrepreneurs in the country and the diaspora to build and operate the hotel.

There are many more such examples of unwarranted government involvement in commercial and economic activities within the formerly war-torn areas and elsewhere that could be profitably avoided.

Governmental Impediments

Not only is the government forestalling private entrepreneurship in the North, East, and elsewhere by monopolising certain commercial activities, it is also impeding economic revival in the formerly war-torn areas by the continuation of the following restrictions in spite of the lifting of many other restrictions in the past several months:

Firstly, vehicles carrying commercial cargo to and from Jaffna and the Vanni (beyond Omanthai) need to obtain a pass from the Ministry of Defence (MoD). Although officially there is no payment required to obtain this pass, payment is made informally to obtain the same. This increases the transaction cost of businesses and restricts market access on both directions to the producers.

Of course, the current situation is much better than during the ceasefire time (March 2002 – August 2006) when all commercial and personal cargo passing through the A9 was subjected to illegal taxation by the LTTE; thereby increasing the prices of all goods in the Vanni and Jaffna. Currently, prices of goods in Jaffna or the Vanni are the same as in Colombo or elsewhere.

Secondly, foreign nationals need MoD permission to travel by air or road to Jaffna even one year after the end of the civil war. For instance, Indian nationals travelling to participate in the Jaffna International Trade Fair during the third week of April had

to obtain prior permission from the MoD. The Sri Lankan diaspora visiting their kith-and-kin in the North are required to obtain MoD clearance. This puts-off people visiting, let alone investing in those areas.

Thirdly, maintenance of the High Security Zone (HSZ) in the commercial hub of the Jaffna city continues to hamper business development due to the dearth of commercial property and office space. I do not think there is any security imperative to hold on to this HSZ in the commercial hub of the city.

The foregoing restrictions and impediments are hardly conducive to promote foreign investment and private entrepreneurship and thereby spur growth in the formerly war-torn areas. Not only is the government getting involved in commercial activities and thereby forestalling individual entrepreneurship and private enterprises, it continues to stifle growth incubation by unnecessary and irrational impediments. The government should restrict its activities to those there is absolutely no other viable alternative (like restoring economic and social infrastructure) and leave the rest to individual entrepreneurs and private enterprises.

Negative Effects of Dependence

Like other war-time and post-war countries, Sri Lanka has been substantially dependent on foreign aid, non-governmental assistance, and private foreign remittances for the sustenance of livelihoods of its people, especially in the North and East. However, there is a threshold beyond which these concessionary and philanthropic benefits could be counterproductive and even disruptive for economic revival. International experiences reveal that foreign aid may not necessarily buy quality economic development or promote enduring economic growth during the time of war or in the aftermath of war. War-time experiences of Iraq and Afghanistan and the post-war experiences in the

Balkans have ample evidence to prove this. In Bosnia, for example, in spite of nearly USD.10 billion of foreign aid disbursed since the end of the war in the mid-1990s and current per capita income of circa USD.3,500 per year, both the rate of unemployment and poverty is about 25% today. Similarly, current unemployment rate among the age group of 15-29 years in Iraq is about 28% in spite of a higher per capita income than that of Sri Lanka⁶. Hence, the real economic development should be measured in terms of rate of net increase in new private businesses, real increase in disposable income of the population, and creation of new employment, in lieu of economic growth, per capita income, etc.

Anecdotal evidences suggest that 'food-for-work' and 'cash-for-work' programmes of the foreign multilateral donors, various relief and welfare programmes of the non-governmental organisations, and private remittances from abroad are perpetuating the culture of dependence and stifling the culture of entrepreneurship, in spite of their good intentions. Yet, there is a call for a 'Marshal Plan' for the North and East by one of our experts⁷.

Similarly, Improving the Relevance and Quality of Undergraduate Education (IRQUE) project funded by the World Bank and the Secondary School Education Modernisation Project funded by the Asian Development Bank at the national level appear to be hitting the wrong targets. On and off, I read newspaper advertisements by these projects calling for tenders for the supply of furniture and equipment (computers, etc.) to the universities and schools, and construction of new buildings. Although the objective of these projects are to improve the "quality" of secondary and tertiary education in the country, significant proportion of the funds is expended on buildings, furniture, and electronic equipment. How could these material goods improve the quality of education?

Although private foreign remittance is the second largest foreign exchange earner and thereby indispensable to the balance of payments of the country, it has negative consequences for economic revival in the formerly war-torn areas. Free flow of foreign remittances has dis-incentivised productive work and had made the youths laid-back. Ironically, amidst complains from many in the North and East about the high unemployment and underemployment rates, there are labour shortages during agricultural harvest season. Thus, the threshold for incentive to work is high.

Conclusion

Money or wealth cannot buy quality economic development or economic dynamism; oil-rich Arab countries are prime examples of this fact. What Sri Lanka requires is not a 'Marshal Plan' of any sort; instead what we require is entrepreneurial capitalism. Modest scale enterprises, as opposed to donor and/or government-funded grandiose projects, could contribute to substantive and enduring growth. Wipro (vegetable oil trading turned technology company), Infosys (one of the largest IT companies), and the likes are the ones spearheading and transforming the Indian economy, and the role models for budding young entrepreneurs.

Suppose the government gave one million rupees per household to about 50,000 households in the North and East based on their innovative ideas and viable business plans (total cost of LKR.50 billion or less than USD.500 million; just 25% of what the government would have spent in those areas in the four-year period 2007-2010), and if only 5,000 or 10% of them succeeded in establishing growth invigorating dynamic enterprises, the economic and social landscape of the former war-torn areas could have been vastly different.

Last year (2009) and this year (2010) have been watersheds in our political history. I hope and wish this year would also become a watershed in our economic history by way of overhauling our traditional economic thinking or paradigm, and embracing transformative entrepreneurial capitalism.

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Footnotes:

¹ A talk at the talk-cum-panel discussion on Economic Prospects of Sri Lanka with special focus on the North and East at the Indian Cultural Centre in Colombo hosted by the Indian Council for Cultural Relations (ICCR) on April 27, 2010.

² I am indebted to Carl Schramm whose article in the *Foreign Affairs* magazine inspired me to write this one. correspondence: sarvi@pointpedro.org

³ Schramm (2010: 96).

⁴ For evidence see Sarvananthan (2008).

⁵ See Saman Kelegama's article in the *Economic Review* (2010: 24&28).

⁶ See Schramm (2010: 90-91).

⁷ Saman Kelegama in the *Economic Review* (2010: 31).