



**Qualitative assessment of the local enabling environment
for private enterprise in the Eastern Province of Sri Lanka**



Australian Government
AusAID



The Asia Foundation

QUALITATIVE ASSESSMENT OF THE LOCAL ENABLING ENVIRONMENT FOR PRIVATE ENTERPRISE IN THE EASTERN PROVINCE OF SRI LANKA

JUNE 2009



Australian Government

AusAID



The Asia Foundation

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We hope that this final product will be of interest, significance, and value to local authorities, private enterprises, and the Government of Sri Lanka in their efforts to improve local economic governance in the Eastern Province.

2. Executive Summary

This study is an assessment of local economic governance and the enabling environment for private enterprise in Sri Lanka's Eastern Province. Good economic governance is of paramount importance to the creation of a dynamic economic environment and sustained growth. For Sri Lanka's Eastern Province, which has been affected by civil war for over two decades, the creation of such an environment is critical to its recovery.

The Asia Foundation's (The Foundation's) approach to fostering effective economic governance in Asia is grounded in recognition of the private sector as the engine for economic growth. However, private sector activity is often constrained by a wide range of institutional obstacles. To address the constraints to private sector growth, the Foundation has developed specialized tools to measure the quality of local economic governance in a country and to engage with both public and private sector actors on policy reform.

One of the Foundation's primary tools, the Economic Governance Index (EGI), uses a set of indices and quantitative, firm-level survey data to measure and rank

localities (e.g., provinces, districts, municipalities) to highlight local variations in the enabling environment for business. The overall rationale for creating this tool stems from the idea that economic governance has a significant impact on private sector development, independent of such structural endowments as location, infrastructure, and human capital. Therefore, good economic governance practices explain why some localities out-perform others, in spite of their having similar initial endowments.

The EGI provides important, relevant economic governance information to policy makers, business leaders, and citizens. Such information creates demand for an improved business environment and provides public officials with information about local best practices as they seek to improve economic policies in their own locale.

As shown in the box below, the Foundation has conducted a series of EGIs in countries throughout South and Southeast Asia including Sri Lanka, Vietnam, Cambodia, and Indonesia. In addition, a Bangladesh EGI is currently being developed for release in 2010.

The Asia Foundation's Economic Governance Indices

- Vietnam: Provincial Competitiveness Index (PCI), 2006-2008.
- Sri Lanka: Economic Governance Index, 2007.
- Cambodia: Provincial Business Environment Scorecard, 2006, 2008.
- Indonesia: Local Economic Governance in Indonesia: A Survey of Businesses in 243 Regencies/Cities, 2007.
- Bangladesh: Economic Governance Index, 2010

Links to EGI reports can be found at: www.asiafoundation.org

When the 2007 Sri Lanka EGI was conducted, the conflict environment in the Northern and Eastern Provinces was not conducive to the implementation of a quantitative survey. Thus, this study was developed in 2008 for the Eastern Province to provide a qualitative “snapshot” of economic governance issues in six localities in the province. The purpose of the study in the Eastern Province, which uses the same sub-indicators as the EGI, is threefold:

- To shed light on constraints to economic growth in specific localities and help to assess the influence of economic governance on business confidence and expectations;
- To raise awareness about local business environments and provide local economic actors, both public and private, with information and support for policy reform; and
- To promote widespread economic dynamism, based on an in-depth understanding of the business environment that affects private sector performance at the local level.

As such, the study acts as a complement to the comprehensive, quantitative 2007 Sri Lanka EGI.

2.1 Methodology

The study is qualitative, based on opinion data gathered from 36 focus group discussions (FGDs), comprising a total of 215 respondents. Each FGD included between six and eight respondents.

FGDs took place in six Local Authorities (localities)—two Municipal Councils (Batticaloa and Kalmunai) and four Urban Councils (Ampara, Kathankudy, Kinniya and Trincomalee)—in the Eastern Province.¹ The division of the FGDs by localities is in line with the methodology used in the 2007 Sri Lanka EGI, which ranked localities based on their economic governance scores.

Focus groups were also divided by type/sector. Some FGD respondents were drawn from a group of representatives from the public and private sector (a “Working Group”) who are currently already working in close collaboration with their respective localities to encourage reforms. Other FGDs were organized by business sector: manufacturing and construction; wholesale and retail trade; and services and others.

Respondents were purposefully recruited through an initial questionnaire, administered in collaboration with

Focus Group Discussion Composition					
Localities	Working Group	Manufacturing and construction	Wholesale and retail trade	Services and others	TOTAL
Ampara	1	1	1	1	4
Batticaloa	1	2	2	2	7
Kalmunai	1	3	3	3	10
Kathankudy	1	1	1	1	4
Kinniya	1	1	1	1	4
Trincomalee	1	2	2	2	7
TOTAL	6	10	10	10	36

1. Ampara and Kalmunai are in Ampara district, Batticaloa and Kattankudy are in Batticaloa district, and Kinniya and Trincomalee are in Trincomalee district.

the Traders Association and the Chambers of Commerce in the respective localities. Once a respondent was identified, an invitation letter was sent by the research agency giving details for the focus group schedule, venue, and transport.

The discussions were facilitated by professional FGD moderators with the use of a focused discussion guide. Each discussion lasted approximately 2.5 hours.

2.2 Eastern Province Background and Key Findings

For 25 years, Sri Lanka's Eastern Province was the scene of armed conflict that severely disrupted the viability of the area's business sector. The uncertainty and violence cost not only lives, but also resulted in damage to property, an escalation of prices, and a scarcity of goods. The conflict stifled business growth and restricted the marketing of products and access to raw materials and skilled labor.

The Eastern Province contributed an average of 5% to Sri Lanka's GDP from 2003 to 2007.² This figure declined in 2004, due to increased conflict caused by the breakaway of a dissident faction from the separatist Liberation Tigers of Tamil Eelam (LTTE), and again in 2005 after the devastating tsunami of December 2004. The per capita income of the province, at 70% of the national average in 2007, was among the lowest of Sri Lanka's nine provinces.

The province's economic growth rate has been increasing since 2005, reaching 24% in 2007, and the upward trend is expected to continue in the coming years, given the Sri Lankan government's focus on development in the Eastern Province. Despite the widespread conception that agriculture is the mainstay of the province, the service sector contributed almost 50% of the province's GDP. Of that, approximately 16% is generated by public sector services, indicating that most of the service

sector-related GDP is generated by the private sector. The industrial sector and agricultural sectors contribute approximately 27% and 23%, respectively, to provincial GDP. However, the agricultural sector remains the province's second largest employer, indicating that agricultural productivity in the province is very low.

Ten broad areas were used in the FGD guidelines to measure the quality of government-influenced conditions under which private enterprises operate. These areas mirror the sub-index groupings from the 2007 Sri Lanka EGI:

1) Business registration (time and cost it takes to register a new firm, and to get licenses and permits)

“Regarding company registration, there are only a few officers in Trincomalee. We have to go to Colombo.”—Respondent from the manufacturing and construction sector, Trincomalee

Registering a business is advantageous because it entitles businesses to government incentives and is a requirement for the purchase of insurance. Respondents encountered four primary problems with business registration: registration delays, lack of customer orientation on the part of public officials, informal charges, and difficulties in obtaining licenses and permits.

Respondents in all localities—with the exception of Batticaloa—indicated that delays in registration were excessive and procedures were difficult. They stated that government officials were lethargic and incompetent, making it difficult to register. Respondents in some areas indicated that they had to pay high bribes. Delays resulted in severe disruptions to business initiatives. Many businesspeople were not aware of the benefits of registering their businesses.

2. All GDP figures are in nominal terms.

Unlike registration, which is optional, all businesses have to obtain various licenses and permits from local and central government institutions.³ In Amapara, Batticaloa, Kathankudy, and Trincomalee, respondents indicated that it was easy to get licenses and permits from local bodies; however, in Kinniya and Kalmunai it was reportedly difficult. Only respondents in Batticaloa said it was easy to obtain licenses and permits from central government institutions and other departments. All respondents, except for those in Trincomalee, expressed the view that the charges levied for licenses and permits were acceptable.

2) **Access to land and property rights (availability and cost of land and buildings, and construction of new buildings)**

“There is no space for new businesses.”—Respondent from the wholesale and retail trade sector, Kathankudy

Respondents indicated that a dearth of business facilities has hampered the establishment of new ventures. In addition, they indicated that rents and sale prices were high, rented premises could not be modified easily, and demands for advance payment of rent hampered business expansion. Rental properties could not be mortgaged to raise money for expansion. These issues were compounded by the fact that most of the FGD respondents did not have legal documentation for their properties.

Other related barriers to expansion identified by focus group respondents included lack of state support for business in general, congestion, the destruction of businesses and infrastructure by the tsunami, poor urban planning, and lack of designated places for industries to operate.

3) **Transparency and participation (access to planning, legal documents, information, and decision-making)**

“When we go there to perform work some officers behave like princes and we are like servants.”

—Respondent from the manufacturing and construction sector, Kathankudy

All respondents, except those in Batticaloa, indicated that the quality of services provided by local authorities was poor, causing disruptions and long delays. They described local officials’ attitudes as indifferent, and reported that it was difficult to get help or advice from them. They indicated that there was a lack of customer orientation, respect, and sensitivity to public needs. Respondents said that delays, favoritism, irresponsibility, and incompetence were the norm. They also indicated that while the help provided by business associations was welcome, it was often inadequate to deal with the overall problem.

In addition, respondents commented that participation in activities and forums in partnership with government agencies was limited to a mechanism set in place by The Asia Foundation, and that wider public consultation and engagement was minimal.

4) **Regulatory environment, compliance, and cost (working with officials, compliance with regulations and cost)**

“Neither employer nor employee knows about the contribution of EPF/ETF.”—Respondent from the manufacturing and construction sector, Trincomalee

Respondents across localities indicated that lack of knowledge about the laws governing businesses—including labor laws, Employees’

3. The number and type of licenses and permits that businesses are required to obtain vary by sector.

Provident Fund (EPF), Employees' Trust Fund (ETF), public health, environmental safety, and price controls—was a problem. Some respondents felt that regulatory compliance was possible, but that there was a low level of awareness of relevant regulations. They felt that local officials did not provide enough information and advice. Regulations were seen by local officials as a way to extract bribes rather than a mechanism for ensuring good business practices. Businesspeople wanted regulations to be flexible and suitable for local conditions, but felt that local officials were more focused on prosecuting business for infractions rather than improving compliance.

5) **Infrastructure and services (services provided by the government)**

“Electricity is also bad, we do not get the required voltage and often electrical equipments are burnt and the situation is very bad”—Respondent from the manufacturing and construction sector, Ampara

Respondents indicated that overall infrastructure was poor, but the quality of infrastructure varied by locality. For example, FGD respondents in Kinniya indicated having good electricity supply, while those in Ampara indicated poor electricity supply. Respondents in some areas had good water connections, while others did not. Street lighting was good in some areas and poor in others. The quality of market facilities ranged from poor to moderate, while garbage disposal was poor in all but one area. All respondents reported bad roads and drainage, but good telephone connections.

Respondents also expected local government authorities to provide information on raw materials, markets, technical issues, and vocational training and skills development.

6) **Tax administration, burden and services (costs and reasonableness of taxes)**

“We cannot say tax is an obstacle. It will help to improve our business.”—Respondent from the manufacturing and construction sector, Batticaloa

While respondents said the tax rates were reasonable in Ampara, Kathankudy, and Trincomalee, those in Batticaloa and Kalmunai found them to be unreasonable. All respondents found it easy to pay taxes, as they were collected by officials on site. However, some felt the rate was arbitrary rather than based on calculations.

Many respondents said that they had to pay extortion money to armed groups and that there were incidents of kidnapping for ransom. Although such incidents have decreased in recent years, they still occur in all localities.

7) **Legal institutions and conflict resolution (confidence in legal institutions to protect property rights and solve conflicts)**

“Minor problems are solved by negotiating with the parties concerned. Most often we take disputes to the mediation board and get solutions.”—Respondent from the manufacturing and construction sector, Kathankudy

The regularity of business disputes ranged from high in Kalmunai, Kathankudy, and Kinniya to moderate in Ampara, Batticaloa, and Trincomalee. Respondents in all localities except Kalmunai indicated that most disputes were resolved through informal mechanisms (i.e. without recourse to the formal justice system, involving courts and lawyers or police), and that the mediation boards (government-sponsored dispute resolution bodies) were particularly useful. Local religious leaders, as well as trade associations and chambers of commerce, often intervened to resolve disputes. In localities where dispute resolution was informal it was deemed satisfactory.

Formal resolution for business disputes was absent in all areas except Kalmunai, where there was a low level of satisfaction with business-related dispute resolution. In all localities with the exception of Ampara and Batticaloa, disputes caused severe disruption to business.

8) Government attitude (support by public officials)

“The elected members of the government and local government authorities never encourage us to do business.”—Respondent from the wholesale and retail trade sector, Kalmunai

Respondents in all localities stated that neither elected representatives nor bureaucrats were interested in supporting businesses or developing new ventures. They felt that officials only served their supporters.

Respondents indicated that they would like to see elected local government and public officials make a number of reforms, including: provision of loans at lower interest rates, automation of local government functions, improved infrastructure, creation of positive incentives for private sector development, expanding public space for markets (polas), skills training for youth, and more user-friendly business registration.

9) Informal charges, favoritism, and discrimination (extent of informal charges and preferential treatment)

“We have to give ‘something’ to get things done. We cannot achieve anything without making payments unofficially.”—Respondent from the production and construction sector, Kalmunai

Respondents in all localities complained of having to pay bribes. The rates were viewed by respondents from Batticaloa and Trincomalee as particularly high. Respondents reported having to pay bribes to officials from district secretariats,

divisional secretariats, the police, municipal councils, and land registry and health departments.

They also indicated that discriminatory practices and favoritism were moderate to high, and that authorities favored the rich and powerful. Political influence and personal acquaintance helped get things done, without having to pay bribes. Respondents cited some examples of racial and gender discrimination. Lastly, they said that corruption was rampant in tsunami relief, rehabilitation, and reconstruction payments.

10) Crime, security, and disasters (extent of crime against businesses)

“Political and police backing of armed groups has resulted in the upsurge of crimes affecting the goods and property of the business community.”—Respondent from the service and other sector, Trincomalee

In all areas except Kalmunai, respondents said that the civil conflict severely affected business development. In the districts of Trincomalee, Batticaloa, and Ampara, all focus group respondents cited the ethnic conflict as one of the main obstacles to growth, despite a sharp reduction in violence in the province since government security forces took over in mid-2007. However, businesspeople must still contend with such ongoing security measures as checkpoints, roadblocks, and parking restrictions that adversely impact their ability to operate their businesses, as well as their revenue.

Respondents in all areas except Ampara and Kinniya indicated that crime was prevalent. Crime was seen as an impediment to their businesses, along with security checkpoints and parking restrictions. In Kalmunai, respondents identified the lack of security at night as the biggest problem, while in Kathankudy it was the civil conflict, and in Trincomalee, it was the incidence of robberies, burglaries, and other crimes.

Natural disasters were also seen as a serious hindrance to respondents' business. In Batticaloa and Kinniya the tsunami was viewed as the biggest hindrance, while in Amapara it was floods and security checkpoints.

2.3 The Way Forward

Focus group participants identified broad four categories of necessary reforms to improve the business environment in their communities:

1) **Competent, efficient, customer-oriented local government**

- Improve local authorities' efficiency of administration
- Place priority on solving the problems faced by the business community
- Improve the services and facilities at the local authority level
- Automate and computerize local government institutions
- Introduce the latest technology to enhance the efficiency of local government institutions
- Make business registration easier and more user-friendly

2) **Improved infrastructure and town planning**

- Build supermarkets, parking places, public parks, and public toilets
- Undertake proper town planning
- Build industrial zones with state-of-the-art infrastructure facilities
- Improve infrastructure facilities in city centers

3) **Other services for business enhancement**

- Provide technical advisory services to businesses
- Provide guidance and advice for business

enhancement and expansion

- Provide training on business optimization
- Provide incentives for development of local industry
- Facilitate marketing of local products in national and international markets
- Provide loans at lower interest rates
- Train the unemployed in order to make them employable

4) **Elimination of corruption**

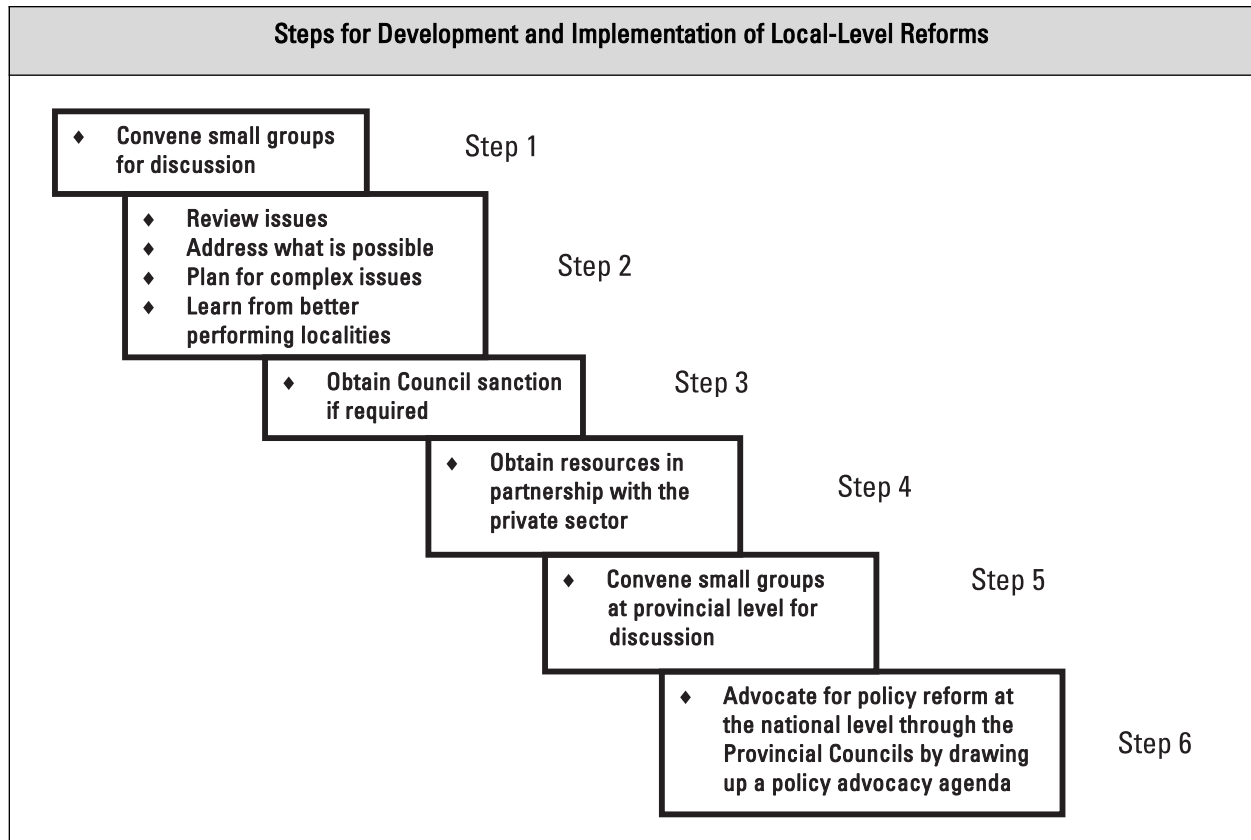
- Periodically rotate public officials
- Eliminate preferential treatment and bribery at public institutions

In order to use the findings in this study to stimulate the creation of a reform agenda and build a more conducive business environment, the recommended action plan that was designed based on the 2007 Sri Lanka EGI can be adapted and applied for use in the Eastern Province:

1) **Local-level recommendations**

- Use the findings to set local priorities
- Categorise the issues
- Create and implement an action plan
- Broaden the dialogue
- Incorporate transparency and participation into the annual planning and budgeting process
- Improve information dissemination

The figure below illustrates the practical steps that can be followed for development and implementation of local-level recommendations.



2) National-level recommendations

- Streamline the regulatory process
- Review devolution mechanisms and structures
- Strengthen linkages between the national and sub-national levels

3. Introduction

3.1 Background to the Sri Lanka Economic Governance Index and Eastern Province Business Environment Study

Until recently, little was known about the business environment in Sri Lanka. While Sri Lanka is included in a number of international business environment and competitiveness studies, including the *World Competitiveness Report* (World Economic Forum), the *Growth Competitiveness Index* (World Economic Forum), and *Doing Business* (The World Bank and The International Finance Corporation), these reports assess economic governance at the national level and therefore do not provide a detailed picture of the interaction between the business community and local authorities at the sub-national level. Several country-level economic studies have been conducted in Sri Lanka by the Sri Lankan government, the donor community, and civil society. The World Bank, in particular, has made important contributions to the evaluation of the rural investment climate.⁴ However, limited focus has been placed on the important question of how governance shapes the enabling environment for investment and enterprise in urban areas. Without an in-depth understanding of economic governance at the local level, it is difficult to promote widespread economic dynamism.

To address this gap, in 2007 The Asia Foundation implemented an Economic Governance Index for Sri Lanka that systematically evaluates the ways in which local economic governance affects the business environment across the country.⁵ The Foundation had previously implemented EGIs in Indonesia, Vietnam, and Cambodia. In Indonesia, the investment

competitiveness of regencies and municipalities (the two types of localities within provinces) has been rated since 2001 through an annual survey of business people. In Vietnam, the Provincial Competitiveness Index (PCI), developed by the Foundation in collaboration with the Vietnam Chamber of Commerce and Industry, established a rigorous method for comparing provincial business environments in Vietnam. In Cambodia, the Foundation partnered with the International Finance Corporation's Mekong Private Sector Development Facility to develop the Annual Provincial Business Environment Scorecard (PBES). The Foundation is currently developing an EGI for Bangladesh.

The Northern and Eastern provinces were intentionally excluded from the 2007 Sri Lanka EGI due to logistical and security constraints. The absence of law and order made it impossible to conduct quantitative survey research in these areas. The study is the Foundation's first effort to capture data and opinions from business owners in one of the two provinces that were left out of the first EGI.

The study is a comparative, qualitative "snapshot" of the local enabling environment for private enterprise across six Municipal and Urban Councils (localities) in Sri Lanka's Eastern Province. The assessment uses qualitative opinion data gathered through focus group discussions to shed light on constraints to economic growth and assesses the influence of economic governance on business confidence and expectations. The study gathered data around ten indices that mirror those used in the 2007 Sri Lanka EGI. These indices and the complete methodology for the Eastern Province Study are described in detail in section 4 of this report.

4. Sri Lanka – Improving the Rural and Urban Investment Climate – World Bank 2005.

5. Economic Governance Index 2007: A Measure of the Local Enabling Environment for Private Sector Enterprise in Sri Lanka.

3.2 The Eastern Province Context

The Eastern Province of Sri Lanka, comprising three districts—Ampara, Batticaloa, and Trincomalee—is slowly emerging out of 25 years of civil war. Security forces took full control of the entire Eastern Province in July 2007. Since then, the socio-economic and politico-military situation has improved. Local government elections in Batticaloa district were held in March 2008, and Provincial Council elections were held in May 2008. Despite these positive developments, the province has a long way to go towards the establishment of good governance based on rule of law and political and economic freedom. Conditions have improved, but the situation remains tenuous.

The Provincial Macro Economy: A Comparative Perspective⁶

There are nine provinces in Sri Lanka. As Table 1 shows, regional economies in Sri Lanka are lopsided, with the Western Province contributing approximately 50% of the national GDP and the eight other provinces combined contributing the remaining 50%.⁷ It is also important to note that nearly 30% of Sri Lanka's 20 million people lives in the Western Province; this skewed population distribution is thus an explanatory factor behind the regional economic disparity in the country.

The Eastern Province has contributed, on average, 5% to the national GDP in the past five years (2003-2007). This is the fourth lowest contribution after the Northern (<3%), North Central (approximately 4%), and Uva (>4%) provinces. The Eastern Province's contribution to national GDP has remained more or less the same since 1990, the first year Provincial GDP (PGDP) data are available. The contribution by the Eastern Province to

national GDP was highest in 2003 (6.1%). However, this contribution declined to 4.9% in 2004 due to increased upheaval in the province caused by the breakaway of a dissident faction from the Liberation Tigers of Tamil Eelam (LTTE). After a marginal decline after the December 2004 tsunami, the Eastern Province's PGDP was back up to 5% of national GDP by 2007. It is likely that this share of GDP will continue to increase with continued political stability in the province, as well as the election of a new Provincial Council.

As Table 1 illustrates, the Eastern Province recorded the highest provincial GDP growth in 2003, at an impressive 40%. However, in 2004 it recorded negative growth (-9%) due to an escalation in the conflict. Since then, PGDP growth has risen steadily to 13.6%, 18.1%, and 23.9% in 2005, 2006, and 2007, respectively. This upward trend is likely to continue in 2008 and beyond if lasting peace can be achieved. In 2003 and 2007, nominal PGDP growth rate in the province (39.7% and 23.9% respectively) was higher than the national GDP growth rate (11.4% and 21.7% respectively).

The per capita income ratio in Table 1 compares provincial per capita income to the national per capita income. The Western Province is the only province with a per capita income that is higher than the national per capita income (70% higher in 2007). All other provinces' per capita incomes are lower than the national per capita income. Although the Eastern Province's per capita income ratio improved from 60% to 70% between 2005 and 2007, three provinces—Western, Southern, and North Western—still had higher per capita incomes than the Eastern Province in 2007. Only the Northern Province was lower.

6. It is important to highlight several factors that make the compilation of provincial economic data difficult: limited availability of intra-provincial data; limited availability of data on inter-provincial trade, services, and transactions; the absence of provincial price indices that makes the estimation of real PGDP impossible; and a time lag of one year between the availability of the national data and the provincial breakdown (Muthalip, 2005 cited in Sarvanathan, 2008: 6).

7. All statistics are compiled in nominal terms due to lack of provincial price indices to compile statistics in real terms.

Table 1: Provincial Economies in Sri Lanka

		Central	Eastern	North Central	Northern	North Western	Sabarasgamuwa	Southern	Uva	Western	Sri Lanka
Share in national GDP	2003	8.6	6.1	3.7	2.8	9.2	6.0	9.9	4.1	49.7	100.0
	2004	9.2	4.9	3.6	2.9	8.5	6.4	8.9	4.3	51.4	100.0
	2005	8.5	4.7	4.3	3.0	8.9	6.4	8.9	4.5	50.8	100.0
	2006	8.8	4.9	4.0	2.8	9.1	6.1	10.0	4.3	50.1	100.0
	2007	8.9	5.0	3.9	2.9	9.6	6.3	10.5	4.5	48.4	100.0
Nominal GDP growth rate	2003	0.6	39.7	3.8	15.4	(-) 0.9	(-) 2.5	16.0	7.3	15.0	11.4
	2004	23.6	(-) 8.9	13.1	22.9	6.8	23.0	3.3	20.2	19.1	15.2
	2005	7.3	13.6	38.5	19.0	21.9	16.4	17.0	24.0	15.1	16.5
	2006	22.7	18.1	12.8	15.3	24.4	14.9	23.0	20.8	16.8	18.4
	2007	22.8	23.9	19.1	27.1	28.3	26.7	27.9	28.2	17.7	21.7
Per capita income ratio	2003	N.A	N.A	N.A	N.A	N.A	N.A	N.A	N.A	N.A	N.A
	2004	N.A	N.A	N.A	N.A	N.A	N.A	N.A	N.A	N.A	N.A
	2005	0.66	0.60	0.74	0.52	0.78	0.67	0.74	0.72	1.79	1.00
	2006	0.68	0.60	0.70	0.51	0.82	0.65	0.77	0.73	1.76	1.00
	2007	0.70	0.70	0.70	0.50	0.80	0.70	0.90	0.70	1.70	1.00

Sources: Central Bank of Sri Lanka, (2008), Economic and Social Statistics of Sri Lanka 2008, pp32, Colombo.
http://www.cbsl.gov.lk/pics_n_docs/02_prs/_docs/press/press_20080710e.doc
http://www.cbsl.gov.lk/pics_n_docs/02_prs/_docs/press/press_20070627.doc

Mapping the Economy of the Eastern Province

As Table 2 shows, in 2006 the services sector contributed almost 50%, the industrial sector 27%, and the agricultural sector 23% to the PGDP of the Eastern Province. In comparison, the services sector contributed 56.5%, industrial sector 27% and agricultural sector 16.5% to the national GDP in 2006. The contribution of the agricultural sector to the Eastern Province economy was therefore considerably higher than the sector's contribution to the national economy, but this province-level sector analysis debunks the popular perception that agriculture drives the Eastern Province economy. The industrial sector's contribution to the Eastern Province economy and the national economy

were nearly the same (in terms of percentage), and the services sector's contribution to the Eastern Province economy was lower than the sector's contribution to the national economy.

Among the sub-sectors of the Eastern Province economy in 2006, manufacturing was the largest contributor (18.3%) followed by crop agriculture cum livestock (18%) and public administration, other government services, and defense (16.1%). It is worth noting that the public administration sub-sector's contribution to the Eastern Province economy was among the highest of all provinces in Sri Lanka, second only to the Northern Province economy, where it contributed 36% (CBSL, 2008: 34).

Although the Eastern Province is a coastal province, the monetary contribution of fishing to the provincial economy is modest, due in part to security restrictions on fishing, particularly in Trincomalee district (Sarvananthan, 2007). Although the agriculture sector was the lowest contributor to the provincial economy among the three main sectors, agriculture accommodated 37.5% of the employed population in 2004, second to the services sector, which accommodated 45% of the employed population (Sarvananthan, 2008: 101). This indicates that agricultural productivity in the province is very low.

At the national level, wholesale and retail trade was the largest contributing sub-sector (20.0%) followed by transport, storage and communication (14.5%), manufacturing (13.9%), and crop agriculture cum livestock (13.3%).

All of the key sub-sectors in the Sri Lankan economy—with the exception of public administration, other government services, and defense—are in the hands of the private sector. A supportive enabling environment for private enterprise is therefore a prerequisite for the recovery of the Eastern Province economy in the post-conflict period.

Table 2: Composition of The Eastern Province Economy in 2006

Sector / sub-sector	Eastern Province	Sri Lanka
Agriculture	22.9	16.5
Crop agriculture cum livestock	18.0	13.3
Fishing	3.4	1.5
Forestry	1.5	1.7
Industry	27.3	27.0
Manufacturing	18.3	13.9
Construction	5.5	9.1
Utility (electricity and water)	1.8	1.9
Mining and quarrying	1.7	2.1
Services	49.8	56.5
Public administration, other government services, and defense	16.1	7.0
Wholesale and retail trade (including import/export), hotels, and restaurants	15.0	20.0
Transport, storage, and communication	11.9	14.5
Financial services, real estate, and business services	3.4	12.6
Other community, social, and personal services	3.4	2.3
TOTAL	100.0	100.0

Source: Author's calculations based on Central Bank of Sri Lanka, (2008), Economic and Social Statistics of Sri Lanka 2008, March, Colombo, pp34.

4. Methodology

4.1 Research Objective

The primary objective of this study was to obtain the Eastern Province business community's views, opinions, and attitudes towards the local enabling environment for private enterprise and to provide both the business community and public officials with relevant information that can be used to inform and support a reform agenda. The focus group discussions were carried out through the first half of the year 2008.

4.2 Research Focus

Ten focus areas, which mirror those used in the quantitative 2007 Sri Lanka EGI, were probed in focus group discussions to explore different facets of the business environment that, in most cases, can be directly influenced by local officials. These areas were:

- 1) **Registration, Permits, and Licenses:** A measure of the time it takes to register a new firm and obtain the required permits and licenses, the extent to which businesses have obtained the necessary permits and licenses to operate their businesses, and the costs involved in the process.
- 2) **Land Access and Property Rights:** A measure of the availability of land and buildings, their costs, and the environment for constructing new buildings, if firms so desire.
- 3) **Transparency and Participation:** A measure of the ease of access to proper planning and legal documents, as well as business-related information, and the extent of private sector involvement in decision-making processes that affect the conduct of their businesses.
- 4) **Regulatory Environment, Compliance, and Cost:** A measure of the ease of working with officials, compliance with laws and regulations, and the time and cost of complying with regulations.
- 5) **Infrastructure and Business Services:** A measure of the adequacy of infrastructure and business-related services provided by localities and government officials.
- 6) **Tax Administration, Burden, and Services:** A measure of the administrative and fiscal burden imposed by the tax administration and the reasonableness of taxes, given the services provided.
- 7) **Legal Institutions and Conflict Resolution:** A measure of private sector confidence that legal institutions protect property rights and solve conflicts, as well as the mechanisms available for resolving such conflicts.
- 8) **Government Attitude toward Business:** A measure of the support extended by government officials and elected representatives toward the business community.
- 9) **Informal Charges, Favoritism, and Discrimination:** A measure of the extent of informal charges, preferential treatment, and/or discrimination on any basis, and the obstacle of extra burdens on business operations.
- 10) **Crime and Security:** A measure of the extent of crime and violence against businesses and the safety of personnel and assets.

4.3 Primary Research Method: Focus Group Discussions

This study gathered data through focus group discussions. FGDs are a research tool conducted for the purpose of exploring respondents' thoughts and obtaining detailed information about a particular issue. FGDs probe respondents' expectations, attitudes, perceptions, and beliefs in a group format to gain insight into the issue of interest.

FGDs usually comprise six to eight respondents who are purposively selected based on a set of criteria, and are led by a trained moderator. This size yields a variety of viewpoints and wide participation. Groups can be larger or smaller. However, larger groups tend to inhibit participation by some respondents and smaller groups tend to be dominated by one or two respondents (Posavac and Carey, 2007).

FGDs are very useful in the early stages of research, like this study, when researchers want to gain a rapid understanding of key issues and there is little or no other information available on those issues. FGDs are generally used for:

- 1) Identifying key issues and themes;
- 2) Generating hypotheses;
- 3) Obtaining feedback; and/or
- 4) Corroborating other research findings.

The FGDs conducted during the Eastern Province study were used for numbers 1 and 3 above, and may also be used for numbers 2 and 4 if further research is undertaken.

Unlike most forms of quantitative primary research, FGDs are relatively easy to undertake. They also allow for more flexibility than some other methods, like surveys, because moderators can probe respondents for answers in greater detail. Additionally, FGDs often allow respondents to express views that they might not express

if interviewed as individuals. Social interaction within the group can yield more complex responses, particularly when there is interactive spontaneity and the security of participants within the group (Posavac and Carey, 2007). These attributes are important in the context of the Eastern Province, where people have endured more than two decades of civil conflict.

However, in comparison to quantitative primary research, there are several drawbacks to qualitative research in general and to FGDs in particular. First, since respondents are not randomly sampled and sample sizes are small, findings from FGDs are not generalizable to the wider population. Thus, it is not possible to infer that the larger population of firms in the Eastern Province has, on average, the same views as the FGD participants. Moreover, the group structure of FGDs may introduce "conformity effects," in which respondents feel pressured to conform to the norm established by the group, and important opinions may not be expressed. Lastly, the data gathered can be difficult to summarize and analyze efficiently as FGDs tend to gather a lot of specific information, but much of it ends up being very tangential to the topic (Posavac and Carey, 2007).

Despite these drawbacks, FGDs were chosen as the primary method of data collection for the Eastern Province Study because they were determined to be the most efficient and flexible method of data collection, given the nascent stage of economic governance research in the province.

4.4 Focus Group Selection, Implementation, and Moderation

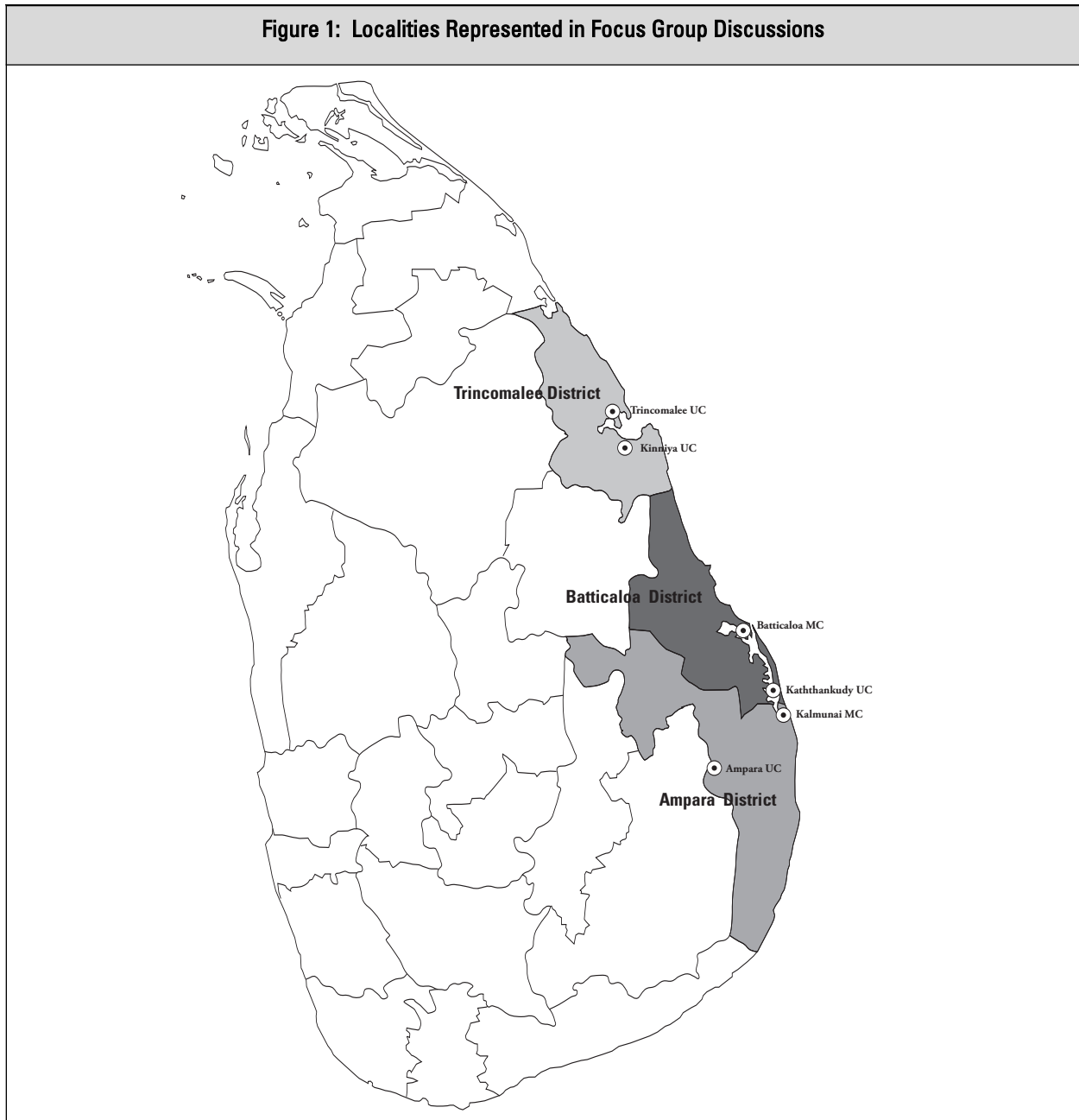
Respondents for the FGDs were purposefully recruited through a questionnaire administered in collaboration with the Traders Associations and the Chambers of Commerce in the respective localities. The group of respondents selected comprised both members and non-members of these organized business organizations, but all respondents had direct, personal experience in fulfilling the statutory provisions of local government.

Once a respondent was identified, an invitation letter was sent to him/her by the research agency giving details of the schedule, venue, and transportation for the focus group.

Focus group discussions were moderated by professional moderators from Quantum Strategic Services with the

use of a focused discussion guide. The discussions lasted approximately 2.5 hours, with a snack served. With prior permission from the respondents, the discussion was tape recorded and transcribed for the purpose of analysis. At the end of the discussion, each respondent was given a gift as a token of appreciation for their time.

Figure 1: Localities Represented in Focus Group Discussions



4.5 Focus Group Location and Sector Composition

The Eastern Province Study FGDs gathered opinion data through 36 focus groups comprising a total of 215 respondents (211 men and four women, with women participating only in the Batticaloa focus groups). As shown in Figure 1 below, focus groups were held in all six urban localities—two Municipal Councils (Batticaloa and Kalmunai) and four Urban Councils (Ampara, Kathankudy, Kinniya and Trincomalee)—in the Eastern Province.⁸ These localities were selected because they are the largest towns in the province. The division of the FGDs by localities was in line with the methodology used in the 2007 Sri Lanka EGI, which ranked urban localities based on their economic governance scores.

Each of the 36 FGDs comprised between six and eight participants. Table 3, below, shows the focus group composition.

Focus groups were also divided by business sector (i.e., manufacturing and construction; wholesale and retail trade, and services and other sectors) and included

representatives from small, medium, and large enterprises. One of the six focus groups included businesspeople who are currently already working in close collaboration with their respective local government counterparts (the “Working Group”) to improve the enabling environment for businesses and local economic resurgence in the province.

4.6 Profile of Participating Firms

The tables below describe important aspects of focus group participants’ businesses across localities, including business sector, age of business, number of employees, ownership type, and registration status.

As Table 4 shows, approximately 25% of respondents in the FGDs were involved in the manufacturing sector, while 30% were involved in trade and 23% were involved in services or other types of businesses. While there seems to be a fairly even sectoral split among the participants, no data was available on approximately 22% of the respondents, which may have skewed the sample toward a particular sector or pair of sectors.

Table 3: Focus Group Composition

Local Authority	Working Group	Manufacturing and construction	Wholesale and retail trade	Services and others	TOTAL
Ampara	1	1	1	1	4
Batticaloa	1	2	2	2	7
Kalmunai	1	3	3	3	10
Kathankudy	1	1	1	1	4
Kinniya	1	1	1	1	4
Trincomalee	1	2	2	2	7
TOTAL	6	10	10	10	36

8. Ampara and Kalmunai are in Ampara district, Batticaloa and Kattankudy are in Batticaloa district, and Kinniya and Trincomalee are in Trincomalee district.

Table 4: Business Sector	
Business Sector	No. of respondents from sector
Manufacturing	53
Trade	64
Service / Other	50
No data available	48

Most respondents had relatively well-established businesses, with 53% of respondents with businesses established six or more years ago (see Table 5). Only 25% of respondents had businesses younger than five years old. However, these results may have been skewed by the 21% of respondents for which there was no data on age of business.

Table 5: Age of Business	
Age of Business	No. of respondents
Less than 2 yrs	18
3-5 yrs	37
6-10 yrs	40
10 yrs or older	74
No data available	46

While respondents had relatively well established businesses, they were small (see Table 6), with 41% employing four or fewer employees. Approximately 16% of respondents employed five to nine employees, and 16% employed 10 or more employees. Again, these results may be somewhat skewed by the approximately 27% of respondents for which there was no data.

Table 6: Number of Employees	
Number of Employees	No. of respondents
1-4	89
5-9	34
10 and more	34
No data available	58

As Table 7 illustrates, the majority (62%) of respondents had sole proprietorships. Only 10% had partnerships, and only 4% had private/limited liability companies. There was no data available for 24% of the respondents.

Table 7: Ownership Type	
Ownership Type	No. of respondents
Sole Proprietorship	133
Private Company – Limited Liability	8
Partnership	22
No data available	52

Approximately 63% of respondents claimed they were registered or were processing their registration (see Table 8), indicating that the majority operated formal businesses. Only 13% claimed to be informal, and there was no data on 24% of respondents.

Table 8: Registration Status	
Registration Status	No. of respondents
Registered	132
Processing	3
Not Registered	28
No data	52

4.7 Data Analysis

The data from the focus groups was captured in discussion format, with an effort to obtain the sense of the group rather than the views of individual participants. The transcripts were analyzed and information was sorted by locality, primary focus areas, and sub-focus areas. The 10 primary focus areas (described above) were predefined following the discussion guide and then broken down further into relevant sub-groupings.

By way of example, for the primary focus area of “Registration, Permits, and Licenses,” one sub-focus area is “Delays in registration” experienced by business owners as they navigated the registration process.

During this process, differences among the various types of focus groups, if any, were also noted to highlight any differential impacts of local economic governance

practices on different business sectors. In the end, there were very few differences among these groups within any particular locality. Therefore, all of the data that follows in section 5 of this study is summarized by locality, rather than by locality and type of focus group.

Once FDG remarks were classified by locality, primary focus and sub-focus, key issues were noted and summarized into tables by locality and sub-focus. These summaries are based generally on the words used by participants as well as the frequency and intensity of their comments, but were not subject to rigorous coding based on strict coding guidelines or key words.

In this way, the summaries are meant to provide a sense of the “big picture” as presented by respondents in each locality.

5. Findings

5.1 Registration, Permits, and Licenses

“Regarding company registration, there are only a few officers in Trincomalee. We have to go to Colombo.”— Respondent from the manufacturing and construction sector, Trincomalee

Business registration certificates are issued by various levels of government (depending on the form of business ownership) to certify that business operations have commenced. Registration provides a one-time certificate that is valid for the entire lifetime of the business. There are several advantages to business registration, including entitlement to state incentives, such as compensation at times of natural and human-made disasters. Registration is also mandatory to obtain insurance. In addition, only registered businesses are eligible to bid for government, non-governmental, and donor contracts.

Owners of limited-liability companies reported being registered with the Registrar of Companies under the provisions of the Companies Act of 2007. Most owners of partnerships and sole proprietorships reported registering at their respective Divisional Secretariats or at their Divisional Secretariats and their localities. Some respondents, of course, were unregistered.

There seemed to be confusion among the respondents over what types of businesses needed to be registered. Many thought that registration was required for only large businesses. Respondents also indicated that even though businesses are sometimes eager to register, their landlords do not want them to register because of perverse tax implications.

Table 9 provides respondents’ views on four common problems with business registration, which the FGD moderators probed in depth:

- 1) Time taken for registration;
- 2) The facilitation role played by public officials;
- 3) Rent seeking and corruption; and
- 4) Overall registration procedures.

In terms of the time taken to register, respondents in five out of the six localities—Ampara, Kalmunai, Kathankudy, Kinniya, and Trincomalee—felt that delays in business registration were excessive. However, those in Batticaloa felt that delays were moderate.

Regarding the facilitation role played by public officials, respondents in all localities expressed the view that incompetence and lethargy of public officials were widespread. Respondents from Ampara, Kalmunai, and Trincomalee indicated that rent seeking by local government officials was high. Those in Batticaloa, Kathankudy, and Kinniya felt it was low.

While respondents from Batticaloa said that overall, business registration procedures were reasonable, respondents in the other five localities felt that such procedures were difficult.

Table 9: Business Registration

Locality	Delays in the registration process	Incompetence and lack of guidance by officials	Informal payments for registration	Overall
Ampara	High	High	High	Difficult
Batticaloa	Moderate	High	Low	Reasonable
Kalmunai	High	High	High	Difficult
Kathankudy	High	High	Low	Difficult
Kinniya	High	High	Low	Difficult
Trincomalee	High	High	High	Difficult

*Shaded areas require attention

Figure 2: Voices from the Eastern Province; Business Registration

<p>Ampara</p> <p><i>"We don't know what documents we should annex. There is no guidance. If they direct us we would be able to register on time."</i></p> <p><i>"Businessmen have not registered because the officials at the DS office do not tell us about the benefits or improvements that will result if we register our business. The Traders Association has informed us about the benefits of registration. The DS office does not provide appropriate service."</i></p> <p><i>"They purposely drag out our paperwork for months and months; there is no government office where we could finish our paperwork within a day."</i></p> <p><i>"Business registration is dragged out for days in the expectation of bribes."</i></p>	<p>Batticaloa</p> <p><i>"We can obtain a license only if our business is registered."</i></p> <p><i>"If you want to insure your business, you need the registration."</i></p> <p><i>"I have been running this saloon for 18 years, but it is not registered at the DS office. We have to shift the location of our shop every two or three years; that is also one of the reasons for not registering."</i></p> <p><i>"It is very hard to finish the paperwork in time at many offices. We have to make a payment to get things done."</i></p>
<p>Kalmunai</p> <p><i>"When we go to the officers they will ask us to pay taxes and some other payments. This is also a reason to refrain from registration."</i></p> <p><i>"Registering is not a hassle. Wasting time is the difficulty."</i></p> <p><i>"The process of registering is tiresome owing to the red tape at these offices. If we want to get registered, we have to fill out the application and we wait for four days to meet the DS."</i></p> <p><i>"If you want to do any business transactions in a government department you don't need to go there. They ask us to go under the 'Vahai Tree' (a place outside the office) and negotiate the rates given by the agents to accomplish the task, and then pay accordingly. Your registration or license copy will come to your door step."</i></p> <p><i>"If we had to pay an official sum of Rs.2,000/- to complete the task, the informal charges may be Rs. 10,000/- or more. This unofficial payment can be four to five times the the official payment."</i></p>	<p>Kathankudy</p> <p><i>"Since the government officers haven't explained the registration procedures to us in detail, it is very difficult for us to register our businesses."</i></p> <p><i>"It is difficult because the DS office hasn't any facilities to register the Industrial Sector. When we took the registration issue to the DS, he wasn't favorable and refused to register my business. So, they don't have any system at the DS office to register Industrial businesses."</i></p> <p><i>"The GS comes and tells us one rule today and another one tomorrow. And if we go to the DS office they tell us another story. So, we are confused about the business laws and systems. If a person wants to start up a business, he will also be confused by the officers."</i></p> <p><i>"When the DS office was in Batticaloa there were informal payments, but when it was moved to Kathankudy these payments are very rare."</i></p>

Kinniya	Trincomalee
<p><i>"Many small businessmen or shops haven't registered their businesses since they operate at a micro level."</i></p>	<p><i>"Registration is the evidence to prove that we are businessmen."</i></p>
<p><i>"They would have registered but they are afraid to register, because of paying the Business Turnover Tax."</i></p>	<p><i>"It is a hassle. Our businesses are small scale. We do not know the correct procedures to register and the officers concerned do not inform us. Due to this, some businessmen avoid registration."</i></p>
<p><i>"Business registration is very difficult because you have to deal with government institutions."</i></p>	<p><i>"When I went to the DS office, I had to wait for a week, because the officer who knew Sinhalese was on leave and no one could read my Sinhala application."</i></p>
<p><i>"Very often when things are difficult to achieve, we resort to short cuts. One of the short cuts is paying 'something'."</i></p>	

Irrespective of registration status, business owners must obtain other sector-specific permits and licenses from both central and local authorities. Some licenses are valid for the lifetime of the business, while others are only issued for specified time periods.

Unlike business registration, which can be avoided, obtaining licenses and permits is mandatory. While localities issue most of the permits and licenses, Divisional Secretariats and central government departments also issue some of them. For example, licenses to operate shop and trade outlets such as grocery stores, hotels, and restaurants have to be obtained from the locality or the Divisional Secretariat. Construction firms must obtain licenses from the Institute for Construction Training and Development (ICTAD). In addition, for security reasons, vehicle passes (travel permits) have to be obtained from the local police station, especially to travel outside the district or to Colombo.

Licenses also have to be obtained for business that extract natural resources or deal with controlled substances. For example, rice millers must obtain a license from the Environmental Authority, and loggers must acquire a license from the Forest Department. In certain places, particularly in areas surrounding the Trincomalee harbor, a fishing permit must be obtained from the security forces. Liquor shops must acquire licenses from the local Excise Department, and pharmacies have to obtain licenses from the local Health Authority.

Focus group moderators probed respondents' views in four areas related to licensing:

- 1) Ease of obtaining licenses and permits from localities;
- 2) Ease of obtaining licenses and permits from other public authorities;
- 3) Cost for renewal of licenses or permits; and
- 4) Rent seeking and corruption.

As shown in Table 10, respondents from Ampara, Batticaloa, Kathankudy, and Trincomalee said it was easy to get licenses or permits from their localities. Respondents in Kalmunai and Kinniya said it was difficult. In addition, only respondents from Batticaloa said it was easy to obtain licenses or permits from other public agencies, whereas businesses in all other five areas said it was difficult.

Respondents in all localities except Trincomalee expressed the view that official charges for licenses or permits were reasonable. However, respondents from Kalmunai and Kathankudy indicated that unofficial payments solicited by those issuing licenses or permits were high. Respondents from Ampara, Batticaloa, Kinniya, and Trincomalee indicated that they were low.

Table 10: Permits and Licenses

Locality	Permits and licenses from localities	Permits and licenses from other authorities	Cost of permits and licenses	Rent seeking and corruption
Ampara	Easy	Difficult	Reasonable	Low
Batticaloa	Easy	Easy	Reasonable	Low
Kalmunai	Difficult	Difficult	Reasonable	High
Kathankudy	Easy	Difficult	Reasonable	High
Kinniya	Difficult	Difficult	Reasonable	Low
Trincomalee	Easy	Difficult	High	Low

*Shaded areas require attention

Figure 3: Voices from the Eastern Province; Permits and Licenses

<p>Ampara</p> <p><i>"The licensing process is not difficult at the UC, and can be done without a waste of time."</i></p> <p><i>"Businessmen do not know the benefits or value of licenses and permits."</i></p> <p><i>"License fees are generally reasonable."</i></p> <p><i>"The UC levies a small amount of money. I pay Rs2500/- Rs3500/-."</i></p>	<p>Batticaloa</p> <p><i>"We have to get a license not only for the shop but for the advertising boards as well."</i></p> <p><i>"We need permits and licenses to carry out our business. Every two years we renew our book. When we go to renew, we have to submit the required documents. If we have them we will get our license."</i></p> <p><i>"There is no difficulty in making the payment. If we are late to make the payment, Rs50/- is charged as an additional fine."</i></p> <p><i>"Generally, we all should get business licenses, because the officers from the MC visit each and every place for inspection and send us the relevant form to make the payment and get the license. The same practice is also carried out for renewal."</i></p>
<p>Kalmunai</p> <p><i>"To run a rice mill, we have to obtain an environmental license."</i></p> <p><i>"When we apply to get a certificate from the Environmental Department, it will take several months to get it done. When we submit the application the officers will come for inspection, but they will not attend to it quickly."</i></p> <p><i>"Our construction field is connected to many other businesses (e.g., timber, electricity, materials). Therefore, we need permits to do our business. When we estimate that to complete a project it will take six months, some times it will take more than this period due to the delay in getting permits and licenses. Due to this, our labour and production costs will increase and our profit will be reduced."</i></p> <p><i>"The government levies a reasonable amount for the licenses, permits, and renewals. But payments are unreasonable when we have to pay unofficially. Once we pay the office peon, the file is taken up to the officers' table."</i></p>	<p>Kathankudy</p> <p><i>"When we bring sand, stones, and wood for construction we have to get a permit."</i></p> <p><i>"For a rice mill, the license has to be obtained from the department of Environmental Safety."</i></p> <p><i>"Business licenses are obtained within a day, but we are unaware about the others."</i></p> <p><i>"We have to get a permit from the police if we want to travel out of the district or to Colombo. We have to fill out the permit forms and get a pass for all travelers. It is difficult sometimes, when we want to travel urgently."</i></p> <p><i>"If our business improves, these payments are reasonable."</i></p> <p><i>"It is not reasonable when they increase the amount and suddenly inform us. For example, if we pay Rs500/- for this year, next year they inform us that it will be Rs1000/-. How can we bear it, with all of the other expenses?"</i></p>

Kinniya	Trincomalee
<p><i>"Obtaining a license is very difficult. This should be made easy."</i></p> <p><i>"We needed to apply for environmental safety registration. Then they will inspect the environmental safety issues. We pay a transport fee for inspection (Rs3,600/-) and Rs8,000/- is paid as a yearly tax."</i></p> <p><i>"It is easy to obtain a license for fishing. The police give this license."</i></p> <p><i>"The environmental safety license is renewed once every three years. A business license is annually renewed. The easiest institution to contact for license is the UC."</i></p> <p><i>"Once a year we have to re-new the ICTAD book at Sawsiripaya, Colombo by paying 10,000/-."</i></p> <p><i>"The expense for license renewal is officially Rs.6,500/- for the Forest Department. For other business, Rs.1, 000/- should be paid. It depends on the category of business."</i></p>	<p><i>"Every year between January and March the officers from the UC visit the shops and do registering. The license will be issued by the UC and VC. In the town area it is the UC, and in the village areas it is the VC. They issue the necessary form, then we take it to UC and make the payment. If it is crowded it will take half an hour."</i></p> <p><i>"The process of obtaining a license is not easy. We have to pay all government taxes before December 31, and get the tax clearing certificate. The excise department should furnish a letter saying that we haven't committed any unlawful activity. The letters from police and kachcheri should be obtained, saying we are not involved in problems or crimes. Obtaining a license is difficult and inconvenient."</i></p> <p><i>"There are a lot of procedures to get a permit for sand. If you take sand from the river, you need to get a permit from the "boovidya" department. Otherwise we have to check with the wildlife department, and if they are responsible for this area, then we get a permit from there."</i></p> <p><i>"A sand permit is valid only for three days."</i></p> <p><i>"For our jewelry shop the license is about 1,000/-."</i></p>

5.2 Land Access and Property Rights

"There is no space for new businesses." –Respondent from the wholesale and retail trading sector, Kathankudy

Access to land and secure property rights are important pre-conditions for business growth. If access to land is limited and property rights are unstable, businesses may not feel secure enough to make long-term investments and may miss opportunities for expansion because they cannot leverage property as collateral on bank loans (DeSoto, 2000; Hayes et al., 1997).

As Table 11 illustrates, moderators probed respondents in four areas regarding land access and property rights:

- 1) Availability of commercial premises;
- 2) Legal documentation for property transactions;

- 3) Costs for rental properties; and
- 4) Business initiation, expansion, and growth.

Respondents from Kalmunai, Kathankudy, Kinniya, and Trincomalee indicated that there was a severe lack of commercial properties available in their localities. Further, respondents from Ampara and Batticaloa also indicated a dearth of business premises, but noted that the problem was less severe than in the other localities. Respondents from all localities stated that scarcity of business premises has hampered the establishment of new business ventures. Respondents noted that the destruction of buildings by the December 2004 tsunami further compounded the problem.

The majority of business facilities among the respondents were rented,⁹ but a few were leased¹⁰ properties. Some respondents had purchased their land, while others had inherited it from their parents or a spouse.

9. The consideration paid for the right to use and possess property.

10. Includes a document under which a landlord and tenant set forth the rights and obligations of each party with respect to an apartment, rental unit, or other real property owned by the landlord and used by the tenant. A lease is an instrument conveying the possession of real property for a fixed period of time in consideration of the payment of rent.

Most respondents had no formal legal documentation (e.g., a contract) of property transactions; most had informal, unregistered contracts/agreements. Respondents indicated that property transactions were generally a “gentleman’s agreement” based on mutual understanding. In a few cases, these informal agreements were signed in the presence of property brokers. Although some informal contracts/agreements were prepared by lawyers and formally signed between the contracting parties in the presence of lawyers, those legal documents were not registered at the District Secretariats and therefore had no standing in a court of law. Respondents also said that the reason for businesses not registering their lease/rent agreements at the District Secretariats is the additional cost involved for registration (e.g., stamp duty, registration fees).

Respondents in Batticaloa, Kalmunai, Kathankudy, Kinniya, and Trincomalee felt that rents and sale prices for business premises were extremely high. Respondents in Ampara also felt that prices were high. Land in the area of Ampara town, including land in the commercial

areas, is state-owned but has been leased to businesses to construct commercial property. Since the businesses do not own the land upon which their premises are situated, they are unable to mortgage their properties to obtain loans from formal financial institutions in order to expand their businesses. Further, these premises cannot be transferred or sold, which constrains businesses from raising capital from the sale of land.¹¹

Further, respondents in all areas indicated that the requirement of advance payment of rent had severely disrupted their businesses. Whereas the businesses community in Ampara felt that it was easy to expand their business, in the other five localities respondents claimed that business expansion was difficult.

In addition to the issue of scarcity of land and buildings, respondents also cited other major barriers to business growth and expansion, including: overpopulation and congestion in urban centers, auctioning of business premises by localities, poor urban planning, and unequal distribution of property.

Table 11: Access to Land and Property Rights

Locality	Availability of business premises	Legal documentation for property transactions	Costs – rentals, purchase prices and advances	Business initiation, expansion and growth
Ampara	Problem	No Formal Documentation	State-owned – unable to mortgage	Poor
Batticaloa	Problem	No Formal Documentation	High	Poor
Kalmunai	Severe Problem	No Formal Documentation	High	Poor
Kathankudy	Severe Problem	No Formal Documentation	High	Poor
Kinniya	Severe Problem	No Formal Documentation	High	Poor
Trincomalee	Severe Problem	No Formal Documentation	High	Poor

*Shaded areas require attention

11. State ownership of land is a major hindrance in the agricultural sector as well. The bulk of agricultural land in the interior parts of Sri Lanka is state-owned, but rented to farmers for cultivation purpose. It is reported that over 70% of the land area of Sri Lanka is owned by the state; this is the result of a land holdings ceiling imposed by the government during the 1970-1977 period.

Figure 4: Voices from the Eastern Province; Access to Land and Property Rights

Figure 4: Voices from the Eastern Province; Access to Land and Property Rights	
<p>Ampara</p> <p><i>"We can't expand our business. We cannot mortgage the land because there is no document to submit to the bank...it is state land."</i></p> <p><i>"The government hasn't taken any initiative to establish the business sector. There are no business complexes in our locality. We have been using an old business premise that was built many years ago, and nothing is in good condition."</i></p> <p><i>"Getting a suitable location for a business is difficult. There are a lot of government offices in the streets of Ampara Town. For example, the place where the Courts, Ceylon Electricity Board, or the Co-operative office are located can all be shifted further down."</i></p>	<p>Batticaloa</p> <p><i>"Very often we get buildings on rent. Few people take buildings on lease."</i></p> <p><i>"We are running our business in the shops built by the UDA under the supervision of MC. Two shops were given to us under a long lease agreement for 99 years."</i></p> <p><i>"As we do business in the market complex, there are shops belonging to the MC. We take them on lease."</i></p> <p><i>"Those who can use some sort of influence can get a place. If someone has more money to spend for rent or lease, he also can get it."</i></p> <p><i>"The property valuation is not done by the government or the department of valuation. The rate is decided by the owner of the premises."</i></p>
<p>Kalmunai</p> <p><i>"People who started businesses early are still in the same place. Newcomers don't have places. We should have a commercial center."</i></p> <p><i>"The main problem is when we run a business in a rented building, while we are trying to improve our business the owner of the building will ask to vacate the place."</i></p> <p><i>"Rich people have lands or buildings. Poor men have no place to do business, That's why they choose street businesses."</i></p> <p><i>"Some are doing business in the mosque buildings."</i></p> <p><i>"Some businessmen pursue their business in their own buildings, but 90% of businessmen rent the premises from private individuals."</i></p> <p><i>"Legal documents are made through a lawyer, witnessed by two persons. We do not register this document, because it costs lot of money and results in problems and difficulties."</i></p>	<p>Kathankudy</p> <p><i>"In Kathankudy there are over 100,000 people and over 500 businessmen. So, the business premises situated within one km. from town are not adequate for 500 businessmen. This is why the space problem exists. The borders have to be extended to get more space."</i></p> <p><i>"Businessmen find it difficult to manage their businesses within a narrow area because 65% of the shops are being broken up for road development."</i></p> <p><i>"Normally the agreement period expires every two years. Another person who wants to get into business in this locality will earmark the buildings which are going to be vacated, and approach the owner... they agree to pay more rent to get it. This is the process in practice."</i></p> <p><i>"We have to pay between Rs. 15,000/- to 25,000/- in rent per month for a 12' x 25' shop with a down payment(key money) of 2-3 years. Sometimes the down payment has to be paid in advance and they deduct it every month."</i></p>
<p>Kinniya</p> <p><i>"Lack of space is a hindrance for our business operations, and we do not have space for advertising either. The land/space that is available is expensive and we can't afford it."</i></p> <p><i>"There is a tremendous shortage of business premises and space within 2 km of Kinniya town since the tsunami."</i></p> <p><i>"We need to get consent from the owner to renovate or make alterations."</i></p>	<p>Trincomalee</p> <p><i>"There is a lack of places for such businesses as hardware and furniture shops."</i></p> <p><i>"Space is a problem because there is no separate area for business in Trincomalee. Shops and business are also in the residential area. Most business owners are using their houses for their business."</i></p> <p><i>"To buy 2-3 perches it costs Rs/8 million, and all the premises are priced above Rs/8.5 million here."</i></p> <p><i>"It is very difficult to get approval from the UC. When we submit the application and survey plan it takes a long time to get approval, but some get approvals using their influence early in the process."</i></p>

5.3 Transparency and Participation

“When we go there to perform work some officers behave like princes and we are like servants.”—Respondent from the manufacturing and construction sector, Kathankudy

Respondents were asked about six specific areas regarding transparency and participation:

- 1) Overall services offered by localities;
- 2) Delays in obtaining services;
- 3) Public meetings;
- 4) Access to information and advice;
- 5) Effectiveness of notice boards; and
- 6) Role of local authorities in the resolution of problems encountered by business.

There are severe gaps in the services provided by localities to local businesses. Respondents’ impression of public officials is that they are not customer-orientated (as one respondent put it, “They always ask, ‘Why did you come?’ They never ask ‘For what did you come?’”). Respondents also complained that officials tended to bestow favoritism and preferential treatment toward some, lack relevant information, and solicit bribes. They also stated that inordinate and unexplained delays impose costs on their businesses.

As shown in Table 12, all respondents except those in Batticaloa stated that overall services provided by localities were poor. In Batticaloa, the respondents felt that the overall services were satisfactory. As a corollary, disruption to business operations caused by poor service delivery by local authorities was perceived as high in all areas but Batticaloa.

All respondents reported long delays in obtaining services from local officials and felt that the attitude of public officials towards businesses indifferent. They also stated that obtaining information or advice from local public officials was difficult. Respondents in all areas except Kinniya felt that that usefulness of notice boards was quite limited. Respondents from all areas felt that involvement of local officials in resolution of problems faced by the businesses community was inadequate.

According to some respondents, Traders’ Associations and Chambers of Commerce are currently fulfilling part of the duty of local authorities by providing such services as information, guidance and advice, and training. Nevertheless, they indicated that the services provided by these organizations are inadequate to fulfill the needs of the business community.

Participation by businesses in joint activities with local government bodies was reportedly limited to the “working group” mechanism facilitated by The Asia Foundation. Many projects that have already been completed through this process were cited, including cleaning days, garbage disposal programs, provision of support for internally displaced persons, and increased market access. This working group appears to be the only mechanism through which the public and private sector are working together for the betterment of the community.

Table 12: Transparency and Participation						
Locality	Overall services offered by the locality	Delay in obtaining services	Public meetings**	Access to info.	Effectiveness of notice boards	Role of locality in issues resolution+
Ampara	Poor	Long Delays	Not Invited	Poor	Insufficient	Poor
Batticaloa	Satisfactory	Long Delays	Not Invited	Poor	Insufficient	Poor
Kalmunai	Poor	Long Delays	Not Invited	Poor	Insufficient	Poor
Kathankudy	Poor	Long Delays	Not Invited	Poor	Insufficient	Poor
Kinniya	Poor	Long Delays	Not Invited	Poor	Sufficient	Poor
Trincomalee	Poor	Long Delays	Not Invited	Poor	Insufficient	Poor

* Shaded areas require attention.

** Public involvement seems to be limited to the “working group” mechanism set up by The Asia Foundation.

+ Trader’s Association and Chambers of Commerce are fulfilling part of the duty of the localities by providing services; however, these organizations cannot provide a fully adequate level of service.

Figure 5: Voices from the Eastern Province; Transparency and Participation	
<p>Ampara</p> <p><i>“If we go to the Kachcheri for registration, they never welcome or ask us to sit or ask for our requirements.”</i></p> <p><i>“We have often told them to invite us, for a meeting with UC officers, public health inspectors, and others, but nothing has happened.”</i></p> <p><i>“There is no history of the UC and business community working together. This is the first experience, with guidance from the Asia Foundation.”</i></p>	<p>Batticaloa</p> <p><i>“There is a cubical saying ‘inquiries’ but no one is there...people use that table to fill out their forms.”</i></p> <p><i>“None of the offices have a central location to provide information. We roam here and there.”</i></p> <p><i>“We, the Traders Association, and the MC jointly conducted a project in our locality. We have constructed a public market with the help of a NGO.”</i></p> <p><i>“As far as I am concerned, the functions of the Chamber are not satisfactory, when compared with the past.”</i></p>
<p>Kalmunai</p> <p><i>“They always ask ‘why did you come?’ They never ask ‘for what did you come?’”</i></p> <p><i>“When they are at the office they will read daily news papers, or have a conversation with a friend... we have to wait until they finish it. Sometimes we wait for hours.”</i></p> <p><i>“It is difficult to find the proper place to get information. We go about wasting time.”</i></p> <p><i>“They do not discuss with us before making any new regulations or other changes. They do everything on their own. They come only to levy taxes.”</i></p> <p><i>“Earlier, there was no relationship between the MC and business community but now it has been developed and we want to identify the problems faced by the business community through various meetings and discussions.”</i></p>	<p>Kathankudy</p> <p><i>“When we go there to perform work some officers behave like princes and we are like servants, but all the officers do not have the same mentality.”</i></p> <p><i>“If we give them a form they ask us to come after a week. If we go there after a week they say your NIC is not there and then ask for birth certificate. They always try to find fault to drag out the work”</i></p> <p><i>“The Traders Association is functioning like the DS office in Kathankudy. It is providing guidance, advice, and training to develop our businesses. Only after the formation of this Traders Association have we felt comfortable about the business security in our area.”</i></p> <p><i>“The Traders Association and UC have jointly operated a security service for businesses for six months.”</i></p>

<p>Kinniya</p> <p><i>“They do not pay any attention to ordinary people. They finish the paperwork of the people who have power.”</i></p> <p><i>“In order to improve the relationship between the trader association and Urban Council we have had several seminars and awareness programs.”</i></p> <p><i>“As far as the Urban Council of Kinniya is concerned, they are providing us with services and they give us guidance. We admire the administrative officers of the UC.”</i></p>	<p>Trincomalee</p> <p><i>“Unexpectedly I saw the board, and found there are notices regarding the sale of waste material, vaccination for cattle and dengue fever, etc.”</i></p> <p><i>“The UC and Chamber of Commerce carried out a Sramadana and the general public appreciated it. We have a video CD and photographs of this program.”</i></p> <p><i>“We are proceeding with two joint programs. One is to help the people in poultry production and the other to arrange marketing facilities; both projects have been put forward by the traders community through the Asia Foundation group.”</i></p>
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5.4 Regulatory Environment and Compliance

“Neither employer nor employee knows about the contribution of EPF/ETF.”—Respondent from the manufacturing and construction sector, Trincomalee

There are many important laws and regulations that impact the business sector, including the Employees’ Provident Fund (EPF) and the Employees’ Trust Fund (ETF), other labor laws, public health regulations, environmental safety regulations, and price control regulations.

As illustrated in Table 13, respondents were questioned about four issues related to the regulatory environment and compliance:

- 1) Compliance with regulatory provisions;
- 2) Public awareness of regulatory provisions;
- 3) Availability of information and advice on regulation; and
- 4) Requirement of changes for existing regulatory provisions.

Respondents from Ampara, Batticaloa, Kinniya, and Trincomalee felt that compliance with regulatory provisions was possible, but not easy. However, respondents in Kalmunai and Kathankudy felt compliance was difficult. For example, respondents from these two localities said that many employees themselves object to deductions made by their employer

for the EPF/ETF due to their low salaries, which leads to lower levels of compliance.

All respondents exhibited low levels of awareness about regulatory provisions. Many respondents felt that regulatory provisions themselves are not a hindrance to their businesses, but rather that lack of awareness about regulations. Respondents in all areas agreed that the availability of regulatory information and advice at local authorities was meager. Many respondents felt that regulatory provisions were used as a means of rent seeking rather than a mechanism for promotion and enforcement of good business practices. Public officials reportedly made little effort to improve regulatory compliance, and their modus operandi was to identify and prosecute infractions.

While respondents in Kalmunai, Kathankudy, and Kinniya expressed the opinion that changes should be made to current regulatory provisions, respondents in Ampara, Batticaloa, and Trincomalee felt that no changes were required (note that respondents’ views on this issue may be of limited value, given their overall low level of awareness about the regulatory environment). Some business owners felt that certain regulations may be more suitable to metropolitan areas like Colombo and not as applicable in other areas. Many respondents said that regulations should be flexible and suitable for local conditions and circumstances. Many also said that the demonstration of mutual benefits to employers and employees and simplification of procedures are appropriate means of improving compliance to regulatory provisions.

Table 13: Regulatory Environment and Compliance				
Locality	Compliance with regulatory provisions	Public awareness of regulatory provisions	Availability of information and advice on regulation	Requirement of changes for existing regulatory provisions
Ampara	Possible	Low	Inadequate	Not required
Batticaloa	Possible	Low	Inadequate	Not required
Kalmunai	Difficult	Low	Inadequate	Changes required
Kathankudy	Difficult	Low	Inadequate	Changes required
Kinniya	Possible	Low	Inadequate	Changes required
Trincomalee	Possible	Low	Inadequate	Not required

*Shaded areas require attention

Figure 6: Voices from the Eastern Province; Regulatory Environment and Compliance	
<p>Ampara</p> <p><i>"We are unable to follow the laws and regulations ...because of the additional expenses like check point loading and unloading, and vehicle rental....we have to incur heavy losses in our businesses."</i></p> <p><i>"The Labor Department must give us clear advice about these laws because the employee retention is very low in our shop. They work for up to six months and leave. Because of this, the employee's and our contribution to the EPF and ETF are wasted...they benefit the government and not anyone else."</i></p>	<p>Batticaloa</p> <p><i>"There are laws, but we are unaware about most of the laws."</i></p> <p><i>"Provincial Health Inspectors visit our places, do their inspection, and report to the office. They do not explain the laws."</i></p> <p><i>"We don't have experience with these rules or regulations."</i></p>
<p>Kalmunai</p> <p><i>"Price control rules are very tough. Our business is slow because of this."</i></p> <p><i>"They will ignore us when we go for advice; there were times when I got frustrated over their behavior."</i></p> <p><i>"Observing public health laws is easy, but the officials don't help us. They come to the hotel and find fault. But they are the cause of irregular public sanitation. The flies are there because of garbage and cow dung."</i></p>	<p>Kathankudy</p> <p><i>"The labor laws are acceptable and useful for the employees because one could save some money for his future."</i></p> <p><i>"The Provincial Health Inspector made a sudden visit to our bakery, found some fault, and immediately asked us to close the bakery. It is a problem for us. We had to visit their office to rectify it."</i></p>
<p>Kinniya</p> <p><i>"We are practically unaware of these laws."</i></p> <p><i>"Employees do not work continuously with us in our shop...if they work for six months with us and go away to another shop, the ETF we paid is wasted."</i></p> <p><i>"It is difficult that we are unable to fix the price for our goods. For example, if a good is priced Rs. 200/- today, it may be Rs. 250/- tomorrow and Rs. 280/- the day after. So, we are unable to practice the price control law."</i></p>	<p>Trincomalee</p> <p><i>"Labor law is a concern. It is difficult to pay ETF and EPF because the laborers don't come to work regularly. They work one or two days and then are absent for two or three days. Sometimes they work for one month, and then don't come back. So how can we pay ETF for them?"</i></p> <p><i>"The Labor Officers are pushing us to pay EPF and ETF."</i></p> <p><i>"Neither employer nor employee knows about the contribution of EPF /ETF. But the department of labour insists that we adhere to it."</i></p>

5.5 Infrastructure Facilities and Business Services

“Electricity is also bad, we do not get the required voltage and often electrical equipments are burnt and the situation is very bad.”—Respondent from the manufacturing and construction sector, Ampara

Proper infrastructure is critical to a productive business environment. Focus group moderators queried respondents on the availability and conditions of the following infrastructure facilities, as shown in Table 14:

- 1) Roads;
- 2) Power;
- 3) Water;
- 4) Telephone;
- 5) Street lighting;
- 6) Public markets;
- 7) Garbage disposal; and
- 8) Drainage facilities.

Respondents in all areas said that roads are in poor condition and drainage is bad. Garbage disposal facilities were reportedly poor in all localities but Ampara. In contrast, respondents in all areas covered by the study said that telephone services were good.

There were variations across localities on the quality and availability of all other forms of infrastructure.

Respondents from Kinniya indicated that they have good electricity connections, whereas those in Ampara indicated that they have poor electricity. Respondents in Batticaloa, Kalmunai, Kathankudy, and Trincomalee reported that their power supply was average.

Regarding the water supply, respondents from Ampara reported good service, and those in Kathankudy reported poor service. Respondents in Batticaloa, Kalmunai, Kinniya, and Trincomalee said that their water supply was average.

Street lighting was reportedly poor in Ampara, Batticaloa, Kalmunai and Kinniya, but reasonable in Kathankudy and Trincomalee.

Respondents in Ampara, Batticaloa, and Kalmunai said that market services were poor in their localities, with respondents in Kathankudy, Kinniya, and Trincomalee describing their markets as average.

Respondents indicated an expectation to receive the following business services from local authorities: labor training, information on availability of raw materials, market information, storage facilities for raw materials, technical advisory services, vocational training and skills development for unemployed youths, self-employment advice and business development assistance (unspecified).

Table 14: Infrastructure Facilities and Business Services

Locality	Roads	Electricity	Water	Telephone	Street lighting	Garbage disposal	Drainage	Market facilities
Ampara	Poor	Poor	Good	Good	Poor	Average	Poor	Poor
Batticaloa	Poor	Average	Average	Good	Poor	Poor	Poor	Poor
Kalmunai	Poor	Average	Average	Good	Poor	Poor	Poor	Poor
Kathankudy	Poor	Average	Poor	Good	Average	Poor	Poor	Average
Kinniya	Poor	Good	Average	Good	Poor	Poor	Poor	Average
Trincomalee	Poor	Average	Average	Good	Average	Poor	Poor	Average

*Shaded areas require attention

Figure 7: Voices from the Eastern Province; Infrastructure Facilities and Business Services	
<p>Ampara</p> <p><i>"Electricity is bad. We do not get the required voltage, and electrical equipment is often burnt."</i></p> <p><i>"The water supply is good. Telephone services are also good."</i></p> <p><i>"Street lamps are very bad, and on some streets there isn't a single light. The UC says that the Electricity Board is responsible for it. The Electricity Board says that they don't have enough bulbs. The UC wants to take over the responsibility."</i></p>	<p>Batticaloa</p> <p><i>"They will clear the garbage from a certain part of the town, but in other places garbage gets collected every two to three days. This affects our business."</i></p> <p><i>"The streets are very bad. When it rains we cannot travel on the road. We had to shut down for 20 days, it was that bad."</i></p>
<p>Kalmunai</p> <p><i>"Immediate problems which should be addressed are garbage disposal, and drainage facilities. We don't need to improve telephone services, they are fine."</i></p> <p><i>"Street lights are not satisfactory. Only the lamp posts are there."</i></p>	<p>Kathankudy</p> <p><i>"A drainage system has to be developed, because during the rainy period the schools, businesses, and offices are affected and cause inconveniences for the general public as well."</i></p> <p><i>"Roads are in a very bad condition due to the lack of action and focus by the RDA."</i></p>
<p>Kinniya</p> <p><i>"The government has to look after road development and the UC has to take care of the drainage system and recycling of waste items."</i></p> <p><i>"The telephone service is very good; the street lights are very low in number; and the market facilities are fine."</i></p>	<p>Trincomalee</p> <p><i>"There is very poor drainage. There is no drainage system on the new road. For example, from the Uppuwely 3rd mile post, there is a drain for only a short distance. Therefore, the water comes into our shop and properties."</i></p> <p><i>"Garbage collection is good, but not properly done. The other problem is that the UC doesn't have sufficient vehicles for this."</i></p>

5.6 Tax Administration, Burden, and Services

"We cannot say tax is an obstacle. It will help to improve our business."—Respondent from the manufacturing and construction sector, Batticaloa

Taxation is a critical issue for both the local authorities and local businesses. There is a plethora of taxes in Sri Lanka at the national, provincial, and local levels including: personal income tax, corporate income tax, withholding tax, value added tax (VAT), business tax, property tax, business turnover tax (BTT), provincial council turnover tax, debit tax, gift tax, stamp duty, excise duty, social responsibility levy, and economic service charge.

As Table 15 shows, respondents were questioned about three areas regarding taxation:

- 1) Rate of taxation;
- 2) Tax payment procedures; and

- 3) Illegitimate taxation.

Business owners had mixed views about taxation and tax administration. Respondents in Ampara, Kathankudy, and Trincomalee felt that the local rate of taxation was reasonable, while those in Batticaloa, Kalmunai, and Kinniya felt it was unreasonable. Respondents from Batticaloa, Kalmunai, and Kinniya felt that the tax burden was an obstacle to their businesses, while those from Ampara, Kathankudy, and Trincomalee did not.

Respondents in all areas said that the tax payment procedure was easy, particularly because revenue collection officials collect taxes on site. However, some respondents felt that taxes are levied in an arbitrary fashion rather than based on sound calculation of revenues and expenditures.

In addition to official taxes levied by the national, provincial, and local governments, there are also

illegitimate taxes (extortion) imposed on businesses and individuals by various armed groups throughout the region as part of the ongoing conflict. Though this illegitimate taxation has decreased significantly in the past few years, it still exists in many places where the

survey was carried out. Thus, illegitimate “dual” taxation by state and non-state actors has become an additional burden on businesses operating in the Eastern Province (see also Sarvananthan, 2008, chapter 6).

Table 15: Tax Administration, Burden, and Services

Locality	Rate of taxation	Tax payment procedures	Illegitimate taxation
Ampara	Reasonable	Easy	Significant Problem
Batticaloa	Unreasonable	Easy	Significant Problem
Kalmunai	Unreasonable	Easy	Significant Problem
Kathankudy	Reasonable	Easy	Significant Problem
Kinniya	Unreasonable	Easy	Significant Problem
Trincomalee	Reasonable	Easy	Significant Problem

*Shaded areas require attention

Figure 8: Voices from the Eastern Province; Tax Administration, Burden, and Services

<p>Ampara</p> <p><i>“The tax should be in proportion to business income. Officers fix the tax rates randomly.”</i></p>	<p>Batticaloa</p> <p><i>“Before we made informal payments to armed groups but that has gone down considerably. We heard that they are getting payments from large groceries and shops.”</i></p> <p><i>“We can not say that informal payments are very low or have decreased; we are still paying armed groups but can not mention the names.”</i></p>
<p>Kalmunai</p> <p><i>“If someone has four advertisement boards he has to pay Rs.3000/- per board. Altogether he pays Rs.12000/- so, how can he expand the business or develop it? These taxes and levies on business enterprises are real obstacles.”</i></p>	<p>Kathankudy</p> <p><i>“When we pay taxes, it helps us to get assistance from outside and also to get recognition as a businessman.”</i></p>
<p>Kinniya</p> <p><i>“A businessman is accepted by the amount of tax he pays to the government. If you do not pay taxes, banks and other financial institutions do not accept you as a businessman. To improve in business it is necessary to pay taxes.”</i></p> <p><i>“Paying these taxes is difficult. Annually we spent Rs 10,000/- on taxes.”</i></p> <p><i>“We pay taxes to armed groups when we have to take sand. We pay tax to collect fire wood. We pay ransom as well.”</i></p>	<p>Trincomalee</p> <p><i>“Paying taxes is difficult but we pay because we have to do it.”</i></p> <p><i>“We pay half of our hard earned money for taxes.”</i></p> <p><i>“35% of the taxes are not reasonable. The income tax, too, is increasing; the tax should be revised.”</i></p> <p><i>“The bank charges Rs.100/- for each withdrawal, and that is unfair. For example, when someone gives us a check to put it into our account and get the money, they charge debit tax for clearance and withdrawal.”</i></p> <p><i>“We don’t pay regular taxes... whenever they approach us we have to pay donations. Amounts vary from person to person. It is a must. It is not a specified tax or amount, but we certainly pay.”</i></p>

5.7 Legal Institutions and Business Dispute Resolution

“Minor problems are solved by negotiating with the parties concerned. Most often we take disputes to the mediation board and get solutions.”—Respondent from the manufacturing and construction sector, Kathankudy

The focus group moderators explored four aspects of business owners’ interactions with legal institutions and their experiences with dispute resolution:

- 1) Prevalence of business disputes;
- 2) Use of formal or official channels;
- 3) Institutions used; and
- 4) Preferred method of dispute resolution.

According to business owners, disputes are commonplace and occur with customers, employees, and government enforcement authorities (e.g., labor officers, public health inspectors, tax officials, police). In the Eastern Province, businesses tend to resolve these disputes amicably through negotiation rather than through more confrontational means.

Table 16 shows that respondents from Kalmunai, Kathankudy, Kinniya, and Trincomalee indicated that the prevalence of business disputes was high in their provinces, but those in Ampara and Batticaloa indicated that the prevalence was moderate.

Respondents from all localities except Kalmunai indicated that they preferred informal methods of dispute resolution, as opposed to seeking formal resolution through lawyers and the courts. Respondents in Kalmunai and Kathankudy said that mediation boards played a useful role in dispute resolution. Others said that local religious leaders, local trade associations, and Chambers of Commerce mediate between conflicting parties to resolve disputes.

Respondents cited high levels of satisfaction in the places where informal methods of dispute resolution were used, while those in Kalmunai, where formal channels of dispute resolution were used (i.e., lawyers and courts, or police), experienced low levels of satisfaction.

Respondents in Kalmunai, Kathankudy, Kinniya, and Trincomalee said that business disputes caused severe disruptions to businesses, while those in Ampara and Batticaloa stated that they only minor disruption to businesses.

Table 16: Legal Institutions and Business Dispute Resolution

Locality	Prevalence of disputes	Use of formal institutions or official channels	Institutions used	Method of dispute resolution
Ampara	Moderate	Hardly use	Mediation boards	Informal
Batticaloa	Moderate	Hardly use	Local religious leaders	Informal
Kalmunai	High	In use	Traders associations	Formal
Kathankudy	High	Hardly use	Chambers of Commerce	Informal
Kinniya	High	Hardly use		Informal
Trincomalee	High	Hardly use		Informal

*Shaded areas require attention

Figure 9: Voices from the Eastern Province; Legal Institutions and Business Dispute Resolution	
<p>Ampara</p> <p><i>“Conflicts with customers are solved among ourselves because it is always important and profitable to keep our customers.”</i></p> <p><i>“We sometimes face conflicts with employees. We try to understand their problems and take decisions accordingly.”</i></p> <p><i>“Going to the police or courts takes money and time, and we don’t want to waste these things.”</i></p> <p><i>“If we face any conflicts with government officers, we inform the Chamber or Traders Association to help solve them.”</i></p>	<p>Batticaloa</p> <p><i>“To resolve disputes, we discuss with the people involved and try to understand their position. If we go to the police it goes on forever. That’s why we solve it ourselves. Our customers will stay with us then.”</i></p> <p><i>“When we go to the police we have to give them something. When both parties start to give, it is like the monkey dividing the hoppers.”</i></p> <p><i>“We have to pay the police, but in the end, the decision will be partial.”</i></p> <p><i>“We have solved some problems through our Chamber of Commerce.”</i></p> <p><i>“We have established a mediation board with the assistance of the Chamber of Commerce to solve problems within the business community and general public.”</i></p>
<p>Kalmunai</p> <p><i>“We settle our disputes 90% of the time by negotiating with the parties...the remaining 10% of disputes goes to the police or courts.”</i></p> <p><i>“We are fully satisfied with the intervention of the Mediation Board.”</i></p>	<p>Kathankudy</p> <p><i>“The customers sometimes don’t look at the standard, brand, and quality of the products; they just check the price in two different shops and create problems.”</i></p> <p><i>“The Provincial Health Inspector visits without prior notice or at a busy time like noon at our hotel. When he has a question and we do not have time to discuss it with him, then, there will be a conflict among us.”</i></p>
<p>Kinniya</p> <p><i>“Minor problems can be solved by negotiating with the parties concerned. For most other disputes we bring them to the Mediation Board and get a solution. Very rarely do we go to the police station.”</i></p> <p><i>“We are most satisfied with the solution of the Mediation Board. They invite both parties concerned and help arrive at a solution after discussing with both.”</i></p> <p><i>“Leaders from the mosque come forward and solve issues. It is convenient for us since we are Muslims. We prefer to solve our issues within the mosque or Traders Association. When we take the issues to the Police and then Courts we have to waste a lot of money and time.”</i></p>	<p>Trincomalee</p> <p><i>“I had a conflict when my employee demanded an increased salary. Within two months period he started to demand Rs1000/- per day. Because of this, I faced disputes with my other employees as well.”</i></p> <p><i>“We are satisfied with solutions created by negotiating with the parties concerned...we do not waste our time and money.”</i></p> <p><i>“Suppose a customer who is involved in a dispute tell his friends, relations, and others. It will possibility create a bad opinion about my business and it will affect my business.”</i></p>

5.8 Government Attitude toward Business

“The elected members of the government and local government authorities never encourage us to do business.”
 –Respondent from the wholesale and retail trade sector, Kalmunai

The attitude that local officials have toward business can have an impact on their relationship with the private sector. If government is perceived as business-friendly and proactive in trying to solve problems faced by the

private sector, businesses may be more satisfied with government services and may be more willing to engage with the government on issues of mutual concern.

Table 17 provides information on respondents’ perceptions of government attitude toward business along two dimensions:

- 1) Attitude of local bureaucrats; and
- 2) Attitude of elected officials.

In all localities, respondents felt that neither elected officials nor local bureaucrats were interested in supporting businesses or the development of new ventures. Most respondents felt that local officials were more interested in serving their supporters and benefactors through patronage networks. They felt that rent-seeking was demanded in return for expedited work.

All respondents said they expected more accountability and an increased service orientation from local officials. The business community wants many services from them, including: guidance and advice on business advancement, automation of local government institutions, modernization of facilities, infrastructure development, incentives for local industries, facilitation of market expansion for their products, training for unemployed youth, and more user-friendly business registration.

Table 17: Government Attitude toward Business

Locality	Attitude of public officials	Attitude of elected officials
Ampara	Indifferent	Indifferent
Batticaloa	Indifferent	Indifferent
Kalmunai	Indifferent	Indifferent
Kathankudy	Indifferent	Indifferent
Kinniya	Indifferent	Indifferent
Trincomalee	Indifferent	Indifferent

*Shaded areas require attention

Figure 10: Voices from the Eastern Province; Government Attitude toward Business

Ampara	Batticaloa
<p><i>"Dealing with some government officers is not easy."</i></p> <p><i>"Government officers have no interest in finishing our work on time and we have to go back many times."</i></p> <p><i>"Not a single government office finishes our work easily."</i></p> <p><i>"The Ceylon Electricity Board is useless."</i></p>	<p><i>"The elected members of the government and local authorities do not encourage or support us."</i></p> <p><i>"We have visited many government officers and when we help them, we are welcomed. Being a fisherman, if I give them fish, they will help me when I go to get something done. We will be treated with preference."</i></p> <p><i>"If you are in a queue, they will call people who are known to them from the back of the line and help them get their work done."</i></p> <p><i>"Generally you must know someone at the office to get your work done urgently. I have experienced this."</i></p>

<p>Kalmunai</p> <p><i>“The elected members of the government and local government authorities never encourage us to do business. We have progressed by our own efforts, not with their support or encouragement.”</i></p> <p><i>“The elected members of the government and local government institutions make promises during election time. Later they don’t do anything for the business sector.”</i></p> <p><i>“Dealing with government officers is not easy. They don’t help us, they only accuse us. We don’t know the basic rules and suddenly they ask for an explanation and cause problems.”</i></p> <p><i>“It is very difficult to get things done. They will openly ask us for money, saying that they will finish our paperwork if we give it to them.”</i></p>	<p>Kathankudy</p> <p><i>“The UC and DS officers have never taken any initiatives to develop business in our locality.”</i></p> <p><i>“Sometimes they provide us with the wrong information and documents, and this may get us in trouble later. They ask us ‘Why did you do that?’ or ‘Who told you to do that?’ When we ask for information, one officer says one thing and another one says something else, so we are confused and fed up.”</i></p> <p><i>“There is no central place or Inquiry Cabin in those offices to guide us. If there were an officer to guide or facilitate inquiries from the general public, that would help us to identify the right officer and finish tasks easily without any inconveniences.”</i></p> <p><i>“It is very difficult to get information from those offices and they don’t care about us.”</i></p>
<p>Kinniya</p> <p><i>“None of the government officers have come to meet us.”</i></p> <p><i>“We expect them to come and guide us or help us, but they don’t. If they seek our advice, we tell them to be honest in their job and also to avoid giving preferential treatment.”</i></p>	<p>Trincomalee</p> <p><i>“The elected members of government and local government institution help their supporters only.”</i></p> <p><i>“The elected members are not helping us, they don’t think about us. Only our Chamber is thinking about us.”</i></p> <p><i>“We ask them to provide services in respect to our business without any delays. We should be informed of procedures in advance to enable us to adhere to them without any difficulties.”</i></p>

5.9 Informal Charges, Favoritism, and Discrimination

“We have to give ‘something’ to get things done. We cannot achieve anything without making payments unofficially.” — Respondent from the manufacturing and construction sector, Kalmunai

Informal payments increase transaction costs for many businesses, reducing their profits and decreasing their ability to make long-term business investments. In addition, favoritism and discrimination may bar certain groups from fully participating as entrepreneurs in the economy.

Table 18 captures respondents’ views on these two issues:

- 1) Informal charges; and
- 2) Favoritism and discrimination.

In Ampara, Kalmunai, Kathankudy, and Kinniya respondents indicated that the prevalence of informal

charges was high, while in Batticaloa and Trincomalee respondents said that the prevalence of bribery was moderate. One respondent from Ampara quipped that the base hospital was the only place where one could obtain services without a bribe.

A wide range of public officials and public agencies were identified as rent-seekers, with some variation across localities. However, the Divisional Secretariat and police were mentioned most often.

In Ampara, respondents said that rent seeking was prominent in the Divisional Secretariat, District Secretariat, and Survey Department. In Batticaloa, respondents said that the police, the Municipal Council, and the District Secretariat also asked for informal payments. Respondents in Kalmunai identified the Divisional Secretariat and the Municipal Council as perpetrators of corruption. In Kinniya, the police and Divisional Secretariat were mentioned. In Kathankudy, the Grama Sewakar, Divisional Secretariat, Police, Land Registry, and Health Department were identified as

prime rent-seeking agencies. Police officers were identified as the main rent seekers in Trincomalee.

Respondents also noted that corruption was rampant in tsunami relief, rehabilitation, and reconstruction payments (both in-kind and cash). Part of the compensation paid to rebuild or repair houses damaged or destroyed by the tsunami was siphoned off by the government officials in charge of these payments (see also Sarvananthan, 2005).

Regarding discriminatory practices and favoritism, respondents from Kalmunai, Kinniya, and Trincomalee said that such practices were high. Those from Ampara, Batticaloa, and Kathankudy said that they were moderate. Respondents felt that the authorities always favored the rich and powerful, and that political patronage helped to get things done more quickly and without informal payments. Racial and gender discrimination was also encountered in certain areas. Some respondents said that women get preferential treatment at certain Divisional Secretariats.

Table 18: Informal Charges, Favoritism, and Discrimination

Locality	Informal Charges	Discriminatory practices and favoritism
Ampara	High	Moderate
Batticaloa	Moderate	Moderate
Kalmunai	High	High
Kathankudy	High	Moderate
Kinniya	High	High
Trincomalee	Moderate	High

*Shaded areas require attention

Figure 11: Voices from the Eastern Province; Informal Charges, Favoritism and Discrimination

<p>Ampara</p> <p><i>"We must give them something just to open our file."</i></p> <p><i>"Not only here but everywhere in Sri Lanka you have to make underhand payments to get your work done."</i></p> <p><i>"We give something to expedite matters."</i></p> <p><i>"Any work can be easily done when you are personally known to the officers concerned."</i></p>	<p>Batticaloa</p> <p><i>"You can not get things done without an informal payment. At least we have to provide a cup of tea."</i></p> <p><i>"My shop has been damaged for one and a half years. I appealed for help many times. Somebody advised me to show a 'peacock' (Rs. 1000/-) note to get things done."</i></p> <p><i>"Corruption is high among the police, and it is even worse in the police station. They also show racial discrimination."</i></p> <p><i>"I have seen at the DS office that they prefer to help the ladies."</i></p>
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<p>Kalmunai</p> <p><i>"We face racial discrimination at government offices...when we go to obtain a birth certificate the Muslim officers help, but Tamil officers waste our time for days."</i></p> <p><i>"Once I went in a sarong, but my clothes didn't suit them. They ignored me. If we go with a tie and shoes, they recognize and help us."</i></p> <p><i>"When we go to the Sinhalese section to get things done for us, we are ignored for being a Muslim tradesman. Also, we do not know the Sinhala language."</i></p>	<p>Kathankudy</p> <p><i>"The traffic police caught me for speeding, so I settled it by paying a bribe."</i></p> <p><i>"Paying 'something' affects poor people."</i></p> <p><i>"Political preferences are also practiced; using this type of influence can get any work done."</i></p>
<p>Kinniya</p> <p><i>"There are people who paid Rs. 25,000/- to get Rs. 100,000/- for tsunami compensation."</i></p> <p><i>"When a policeman, a rich man, and a poor man go to try to get a particular task done, the preference is given to the police and rich man."</i></p>	<p>Trincomalee</p> <p><i>"We have to pay to get a permit to transport timber. We also give something to the police who are on the road at the checkpoints."</i></p>

5.10 Crime, Security, and Disaster

"Political and police backing of armed groups has resulted in the upsurge of crimes affecting the goods and property of the business community." –Respondent from the service and other sector, Trincomalee

Since mid-2007, the security situation has improved considerably in all localities covered under this study, especially in Ampara and Kinniya. However, the security situation is still tenuous across this multi-ethnic province and continues to impact businesses.

Respondents were questioned about the following issues:

- 1) Burglaries, robberies, and other crimes;
- 2) Check points and parking;
- 3) Civil conflict;
- 4) General lack of security; and
- 5) Natural disasters.

Table 19 shows that burglaries, robberies and other crimes were highly prevalent in Batticaloa, Kalmunai, Kathankudy, and Trincomalee. However, respondents from Ampara and Kinniya indicated that there was low prevalence of such

crimes. Additionally, due to swift security measures taken by law enforcement authorities, the crime rate had reportedly recently dropped in Kathankudy. As a corollary, the perceived disruption caused by burglaries, robberies, and other crimes was severe in high-crime areas (Batticaloa, Kalmunai, Kathankudy, and Trincomalee) but low in Ampara and Kinniya.

Respondents in Batticaloa, Kalmunai, Kathankudy, and Trincomalee noted that burglaries, robberies, and other crimes were common occurrences at night due to apathy by law enforcement officials. In response, businesses tended to close early and some businesses had to employ private security personnel at night. In Kathankudy, businesses banded together to jointly employ private security guards. Few businesses have taken out insurance coverage, because it is more expensive than hiring private security personnel.

Respondents across all localities said that numerous security checkpoints and parking restrictions severely hampered their businesses. Parking restrictions are imposed on main roads to guard against bombs hidden in vehicles (including bicycles). Respondents said that such parking restrictions dissuade consumers from traveling longer distances to shop and restrict them to areas around their homes, which has skewed business toward villages and away from towns.

They also noted that roadblocks, checkpoints, and road closures increase the cost of transporting goods (see also Sarvananthan, 2007: 5-9, 11) because of delays, the additional labor cost to unload and reload goods, damage to goods during repeated unloading and reloading, and rent-seeking by checkpoint personnel. In addition, certain main roads are closed from dusk to dawn, which delays transport. For example, the roundtrip transport of rice to Colombo from Ampara takes about four days because of the checkpoint in Mahaoya. Under normal circumstances, it should take just two days.

All respondents spoke about the severe impact of the civil conflict on their lives and businesses. They have experienced loss of life in their communities, damage to property, loss of business, crime, escalation of prices, scarcity of goods, and psychological trauma. The conflict has stifled growth and business expansion, restricted marketing efforts, and restricted access to raw materials and skilled labor.

However, respondents also acknowledged that the severity of the conflict had recently decreased due to fewer incidences of direct confrontation between security forces and militants.

Respondents from Kalmunai, Kathankudy and Trincomalee said that the general lack of security was high in their areas. The degree of disruption caused by general lack of security was reportedly high in Ampara, Kalmunai, and Trincomalee, but low in Batticaloa, Kathankudy, and Kinniya.

In all areas, respondents noted that natural disasters were common and caused disruptions to business activity, fishing, and crops, with particularly severe impacts caused by the December 2004 tsunami and heavy flooding in February and March 2008. The tsunami devastated numerous businesses in all areas surveyed, with the exception of Ampara town, which is the only non-coastal locality represented in the study. Farmers and fisherfolk who borrowed goods and services on credit were unable to repay their loans after the tsunami and floods.

Respondents in each locality identified the most pressing security and/or disaster-related problem. Respondents in Batticaloa and Kinniya cited losses due to the tsunami as a key problem, while Ampara businesses people cited floods and security checkpoints. Kalmunai participants cited lack of security at night; Kathankudy respondents cited the civil conflict; and Trincomalee businesses people cited robberies, burglaries, and other crimes as their key problem.

Table 19: Crime, Security, and Disaster

Locality	Burglaries, robberies and other crimes	Check points/parking	Civil conflict	General lack of security	Natural disaster
Ampara	Low	High	High	Low	High
Batticaloa	High	High	High	Low	High
Kalmunai	High	High	Moderate High	High	High
Kathankudy	High	High	High	High	High
Kinniya	Low	High	High	Low	High
Trincomalee	High	High	High	High	High

*Shaded areas require attention

Figure 12: Voices from the Eastern Province; Crime, Security, and Disaster

Figure 12: Voices from the Eastern Province; Crime, Security, and Disaster	
<p>Ampara</p> <p><i>"The security situation in Ampara town is normal."</i></p> <p><i>"There is progress in the security situation."</i></p> <p><i>"Crime is very low in Ampara town."</i></p> <p><i>"A customer who came from Uhana to Ampara to purchase goods couldn't park his vehicle in the street, so now he is purchasing the same items in Uhana. We are losing our customers."</i></p> <p><i>"If farmers are affected by any incidents, all of Ampara will experience damage because 90% of them are farmers and involved in farming."</i></p>	<p>Batticaloa</p> <p><i>"We can say the security situation of this locality is normal. We live in the municipal area and we are safe."</i></p> <p><i>"The civil conflict has resulted in communal riots in several areas in the east of Kathankudy (e.g., Kaluwanchikkudy, Batticaloa, Kallar, Pothuvil, Akkaraippattu, Karaithivu). Because of this people do not travel much in these areas and this affects business."</i></p> <p><i>"We could not engage in cultivation due to the heavy rains. The coconut estates were severely affected because trees died due to the stagnating rain water."</i></p> <p><i>"I am from Kallady. I was badly affected by tsunami. I lost property to a value of Rs.60 lakhs. My hospital was completely destroyed."</i></p>
<p>Kalmunai</p> <p><i>"The security situation is deteriorating and affecting our business."</i></p> <p><i>"Security forces should protect us not limit our business activities. They do not allow parking, which is affecting our business. These restrictions are only in Kalmunai, not in Sainthamaruthu or Maruthamunai."</i></p>	<p>Kathankudy</p> <p><i>"In Kathankudy the security situation is normal. But moving around at night after 10.00 or 11.00 pm to another area is risky, and we are afraid."</i></p> <p><i>"The Kathankudy UC and the Traders Association have jointly established private security guards for the town at night. This was undertaken after several business premises were burgled and burned down. The measure has improved security of the town at nights. All shops contribute towards payments to security guards."</i></p> <p><i>"We are unable to keep our shop open late because the Thalavattan junction is closed by 7:00 pm."</i></p> <p><i>"Muslim farmers are unable to cultivate their paddy fields situated in Tamil areas. Due to insecurity in such areas and this has affected the economy of Kathankudy."</i></p>
<p>Kinniya</p> <p><i>"As far as we are concerned we do not have any security issues in our area, it is safe".</i></p> <p><i>"We do not have activities like demands for ransom, or kidnapping. We can go about freely."</i></p> <p><i>"We are satisfied with the recent security situation."</i></p> <p><i>"My shop was burned down due to a business rivalry."</i></p>	<p>Trincomalee</p> <p><i>"The security situation of our area is not bad, but we are still not satisfied with it."</i></p> <p><i>"The security situation has improved when compared with the past, but there are still problems. We can open our shop and do business until evening. People are coming to the beach in the evenings because there is security."</i></p> <p><i>"When a Buddha statue was put up, there was a big disaster. Forty business places were burned down."</i></p>

6. Recommendations

The needs of local private sector actors in the Eastern Province are necessarily somewhat different from the needs of the business community in the other provinces of Sri Lanka, as the Eastern Province has just recently emerged from a protracted conflict. Provincial and local authorities in the province should learn from the post-conflict economic recovery experiences of other parts of the world (CIPE, 2008).

At the same time, many of the main constraints in the business environment encountered by business owners in the Eastern Province are common to other provinces in Sri Lanka (Sri Lanka EGI, 2007). Thus, many of the recommendations highlighted in the 2007 Sri Lanka EGI are applicable to Eastern Province and are provided here:

6.1 Local-level recommendations

The local-level recommendations outlined below are most effectively implemented by working groups that include representatives from the local private sector (including trade associations, as well as individual firms), local council members, and local government officials. The composition of these groups may vary, depending on the substantive focus and task. The Provincial Council members may also participate in select deliberations, as appropriate.

- 1) **Use findings to set local priorities:** The initial focus should be to discuss and review how the respective locality rates in a particular focus area compared to other neighboring localities. This will enable the creation of a list of issues that need attention, which can then be prioritized by the group.
- 2) **Categorize the issues:** Issues need to be categorized along two dimensions. The first dimension is the root cause of the problem. For example, the root cause might be insufficient capacity, the nature of the processes used to get things done, poor information sharing, or general lack of awareness. The second dimension concerns how and where the issue can be addressed. For example, some issues may be addressed easily and in the short run by local government (e.g., changing the physical arrangements in a government office to increase accessibility). A more complicated issue might require more time, as well as partnership with other stakeholders (e.g., providing information that is archived in different records or databases). It is helpful to look at best practices from other localities with respect to both of these dimensions.
- 3) **Create and implement an action plan:** Each locality's priorities will be different, resulting in a tailored action plan for each locality that involves a variety of actors. For example, some issues might be addressed by the council on its own. In other cases, due to lack of technical know-how or resource constraints, a private-public partnership is needed, or a partnership between local government and the Provincial Council. Further, given the relationship between national-level economic governance and local economic governance, some types of policy issues will require resolution at the national level. For these issues, a focused advocacy agenda can be developed and implemented through a strategic private-public partnership. Working groups may be organized around specific issues to maximize the efficiency of the planning and implementation process.
- 4) **Broaden the dialogue:** While the core working groups will likely include representatives from

local government and private business, there may be issues which require cooperation or support from other public agencies, civil society groups, and other constituencies. By broadening dialogue with these groups, the local community can advocate alongside the private sector, with the ultimate goal of improving economic governance.

- 5) **Incorporate transparency and participation into the annual planning and budgeting process:** The process used for analysis and implementation of a local economic governance reform agenda can serve as a model for the overall local annual planning and budgeting process. More transparency and participation in these routine local activities can have a positive overall impact on the local business environment.
- 6) **Improve information dissemination:** The reform process can also include creative awareness campaigns that increase transparency and inform the private sector about new laws, processes, and procedures. The working group must identify or create the most effective mechanisms for quick and easy information sharing, and ensure that the information being disseminated is of high value to the private sector.

6.2 National level recommendations

- 1) **Streamline the regulatory process:** Given overlapping systems and murky geographical demarcations, the private sector does not necessarily differentiate between one institution and another in its daily interactions with government. However, this creates confusion, as a business entity might have to come into contact with multiple institutions to complete a single process. Given the “time is money” orientation of the private sector, the need for multiple contacts is frustrating. In the long run, consideration should be given to creating one-stop shops that provide all critical government services effectively at the local level, giving businesses a single office

in which they can complete transactions, even those that are complex.

- 2) **Review devolution mechanisms and structures:** Local government bodies are the focal point for many services associated with economic governance. It is important that they be empowered to provide these services more effectively.
- 3) **Strengthen linkages between the national and sub-national levels:** Local and national business environments cannot operate efficiently without close interaction. Problems raised at the local level may need to be brought to the attention of the national level, while national reforms are dependent on implementation at the local level to be fully effective. Closer interaction among different levels of government would ensure better coordination of policy reforms that benefit a large proportion of the country’s private sector.

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