

# POLITICAL-ECONOMY PROFILES

## A Brief Report on the Business Environment of Kalmunai Town



Produced by Michael Calavan and staff of The Asia Foundation, Colombo



**The Asia Foundation**



**Australian Government**  
Aid Program

## *Political-Economy Profiles*

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#### **Introduction**

Now in its second phase, The Asia Foundation's Local Economic Governance (LEG) program aims to directly improve economic governance practices in 15 towns in five of the nine provinces in Sri Lanka. LEG facilitates discussion between the public and private sectors, which in most cities are historically uncoordinated at best, and at worst mired in disputes over regulations and services, by convening local government officials, businesspeople, and citizens to address how to improve commerce and trade. LEG focuses on the capacity of LAs to support economic growth while encouraging the private sector to take the lead in pursuing opportunities to create jobs, increase profits, and expand the critical revenue base for LAs. The Public-Private Dialogues (PPDs) established in partner LAs by the first phase of LEG resulted in the identification and prioritization of issues, and the joint design and implementation of innovative and replicable solutions, such as improved physical infrastructure, or rationalized processes to help bring businesses into regulatory or tax compliance.

To complement and measure these achievements, LEG introduced the profiling of private sector-local government relations and interaction through a rapid appraisal in LEG towns. The method was semi-structured, in-depth interviews with a representative cross-section of the business community, capturing the prevailing status of the business climate, its "business-friendly" and "unfriendly" attributes. By interviewing the same 12-18 business-owners at intervals, the profiles will provide a baseline for LEG's progress in strengthening public-private relationships and economic growth. The profiles will be used to develop a survey instrument for a survey, using quantitative methods. The surveys will arrive at a numerical scale and data used to make comparisons among communities in a particular year and to track a single location over time. The reports will generate discussion in the partner communities as well as at the national level about what steps government can take to improve the local business environment.

Both the PPDs and profiles identify micro and macroeconomic issues by clarifying the challenges and interests of businesspeople. But PPDs are highly structured, action-oriented, susceptible to dominance by certain voices, and often geared toward a specific consensus-based outcome. While PPDs can secure the momentum and interest for both long-term partnerships and short-term 'quick wins,' the open-ended and individualized format of the profiles adds nuance, identifying concerns and insights that may not come forward in a facilitated group session. Under the comfort of anonymity and free of the sense of ethnic or political obligations, respondents state their level of agreement or disagreement on 10 statements about the local economy. These interviews, lasting 45 minutes to an hour, enable not just yes or no answers, but informative explanations. By inviting feedback and analysis on a range of economic subjects, the profile allows the respondents to step outside their traditional roles, speaking not only as an expert or advocate regarding issues specific to their business, but also to greater trends, future prospects, and the status of the community as a whole.

The profiles allow LEG consultants and field staff to collect detailed information in just a few days, capturing the distinctiveness of the locality in a way that a formal quantitative survey, using random sampling and a predetermined range of answers, would not. The open-ended nature of the profiles is more appropriate in situations where limited knowledge of the local context inhibits the creation of a truly useful standardized instrument, but one which we are working toward. Panelists who are interviewed have been known to actually change their positions during the discussion. In this sense, the profiles reveal the short-comings of traditional surveys in documenting such dynamics.

While the Foundation works with local partners to purposefully identify panelists and ensure appropriate representation of female business-owners and the variety of industries, a third of interviews are ad hoc, increasing the opportunity for previously untapped perspectives. For respondents familiar with LEG, the profiles

confirm the value of their participation and demonstrate the Foundation's continued engagement. In contrast, the spontaneous interviews pique new interest and optimism for collaboration. For example, during one interview, a shop owner accused the local Chamber of Commerce of a lack of openness, and observed that notifications from the LA were frequently not in Tamil. Though he complained about the responsiveness of these groups, the conversation appeared to heighten his interest in engaging with both his peers and the LA to advocate for his rights—while also highlighting for the Foundation issues that may not have been captured by traditional methods. Another respondent drove home the differing conditions in Colombo by presenting first-hand documentation of the length of time required to secure a business license in the capital (half an hour) versus his city (two months), information which he may not have felt comfortable pressing in a meeting with government, but which speaks to an explicit aim of LEG: to improve the business environment in localities outside of the Western Province, which enjoys disproportionate growth and investment compared to the rest of the country.

Though the BEBs conducted to date have already enlightened program staff on whether a city is progressing, stagnating, or declining, and the contributory factors, the real value of the profile will be shown in the coming months. One purpose of the profiles is to provide Sri Lankan policymakers with timely, accurate information about the sub-national business environment, pinpointing common challenges that should be addressed island-wide. But the most valuable outcome of the findings, when disseminated to Local Authorities and private sector partners, will be the resulting new discussions and cooperative initiatives aimed at streamlined and supportive local government services, innovative partnerships, and other, perhaps unanticipated, challenges and opportunities for inclusive economic growth.

## SECTION 1—Methodology

As part of this series, we have prepared political-economy profiles of 15 towns. In alphabetical order, they are:

- Ampara
- Badulla
- Bandarawela
- Batticaloa
- Galle
- Hambantota
- Jaffna
- Kalmunai
- Kandy
- Mannar
- Matale
- Matara
- Nuwara Eliya
- Trincomalee
- Vavuniya

In the 18 interviews in Kalmunai that comprise this profile, business and local government leaders were asked to elaborate on why they agreed or disagreed with 10 broad statements:

- There is observable economic growth
- Existing businesses are expanding
- New businesses are being established
- Opportunities to expand or start new businesses are increasing
- The people in Kalmunai are more prosperous
- Businesses are trying for more positive influence on government
- The MC is taking practical steps to improve business
- The government policies that affect business operations are improving
- The basic resources needed to run a successful business are improving
- The long-term outlook for business in Kalmunai is promising

We have not tried to attach numerical scores for each of the ten components because of the small sample sizes. We want to discourage the temptation to draw comparison between towns based on these small samples. The statements below represent the opinions of 18 business people selected as panel members in Kalmunai. The information must be interpreted with some care; the samples are not large enough to use as the basis for generalizations. However, they do offer a useful snapshot of the psychological state and institutional setting of Kalmunai business at a point in time, in this case July 2011. Later, when qualitative observations are used in conjunction with survey data, they can provide rich, comparative insights into the business environment.

Asia Foundation staff have made every effort to present opinions and information gathered during interviews accurately. However, we cannot guarantee that all information provided by panelists is accurate, or that their opinions are internally consistent. We can vouch for their strong commitment to providing their views as openly and accurately as possible.

These individuals include: owners and managers of *retail shops* and *service providers*—groceries, jewelers, clothing and textiles, electronics, mobile phones, photographic and printing services, beauty shops, furniture, training institutes, and private schools; *small-scale manufacturers*—handicrafts, food products, garments, mechanical products; *wholesalers*—of agricultural commodities, food products, and beverages; and *others*—bank managers, contractors.

## SECTION 2—Panelist Observations

### 1. “There is observable economic growth in this community.”

Panelists held two divergent views regarding this issue. More than half agreed or strongly agreed with the statement, while a third disagreed or strongly disagreed. Positive responses generally referred to causes of economic growth, notably the end of the war, or specific indicators of growth. Negative responses often cited counter examples. Notable observations by the panelists included:

- Working hours are increased and total sales are increased.
- There are more job opportunities and not many jobless people.
- We have fisheries, agriculture, and jewelry manufacture, all in good condition.
- Overall, businesses are improving, but technical innovation and new investment can bring more improvement.
- “The bus stand is inadequate; the toilets are bad. People try to get another bus and get out.”
- “Our country is centered on the politicians. Even to get a certificate you need political support.”

Panelists agreeing with the statement mentioned 1) the *basic elements of growth*: the end of the war brought improved security and investor confidence; fisheries, agriculture, and jewelry making [six-eight small factories] constitute the primary elements of the local economy; transport is improved: Kalmunai is the “hub” of the East; business people are traveling abroad and importing goods from Thailand, India, Singapore, and Malaysia; numbers of out-of-town customers are increasing. They also identified 2) *indicators of growth*: a lengthened business day; increased sales; more job opportunities; new hotels and restaurants; a luxury bus service; the substitution of modern structures for *kajaan* houses; rising education levels; and offered 3) *additional insights*: there are low levels of poverty; technical innovations and additional investment are needed to maintain growth momentum; specialized small industries—hand weaving, hand pounded rice—are finding niche markets; there is a “new lifestyle” evidenced by establishment of several wedding halls.

Those disagreeing with the statement identified 1) *causes of stagnation*: business people following traditional practices; the lingering effects of the war and tsunami; recent flooding; a “lethargic” Municipal Council lacking technical skills and effective leadership; businesses being undercut by door-to-door sellers; unimproved roads and infrastructure; new markets in other towns; the high cost of living [which limits household expenditures]; early evening shop closures; corrupt politicians; and 2) *indicators of stagnation*: absence of hotels and restaurants; an inadequate bus stand with unsatisfactory toilets.

Overall, panelists make a convincing case that there is growth in Kalmunai. However, reasons for caution about the sustainability of growth are readily identifiable.

### 2. “Existing businesses in this community are expanding.”

Panelists were broadly in agreement regarding this issue. Nearly two thirds agreed or strongly agreed with the statement. Only a quarter disagreed or strongly disagreed. In either case, observations typically referred to the panelists’ personal business experiences as well as their observations on other firms in Kalmunai. Notable observations by panelists included:

- Banks are lending; it’s now possible to expand businesses.
- Remittances and returned emigrants are also funding business expansion.
- A tire dealer and purchased a vehicle and begun to deliver to his customers.
- A grocery previously operated single handed by the owner now has three employees.
- Outside competition encourages local businesses to modernize the style of shop premises.
- “People feel that business has ‘gone down,’ so there is little expansion.”

Panelists agreeing with the statement described 1) their *personal experiences* with business expansion: a small grocery has added three employees; a woman who lost her garment business to the tsunami has now built her business back to six machines; a garlic retailer has become a wholesaler; a photo printing shop has added new equipment and computer software; a tire dealer has acquired a vehicle and begun to deliver to his customers; a small snack producer has added a digital scale and product labeling; and 2) their *observations on other businesses*: jewelry shops have been expanded into small factories; firms are modernizing with such innovations as air conditioning and cash registers; fish landed in Kalmunai are now sold in the Southern Province. Panelists also offered 3) *general observations* on business expansion: many firms have expanded their inventories without necessarily achieving higher sales; bank lending has made it easier to expand; remittances from abroad and returned emigrants are also funding expansion; 80% of business vehicles are purchased under bank loans or leases.

Panelists disagreeing with the statement offered 1) *general comments*: some businesses are shrinking due to competition from new village markets; [many] shops haven't been modernized; and 2) *personal experiences*: a stationery business has not been modified because profits have stagnated.

Panelists tended to agree with the statement if they had undertaken expansion themselves. Those disagreeing had not experienced recent expansion.

### **3. “New businesses are being established in this community.”**

Panelists were substantially in agreement on this issue. Five-sixths either agreed or strongly agreed. Virtually all mentioned the presence of new financial institutions in Kalmunai, as well as a range of other businesses.

Notable observations by panelists included:

- “I started a new business selling bakery equipment.”
- “I started a new business selling furniture and hardware, and bought a new lorry for deliveries.”
- One person has started an ice factory.
- Another is manufacturing fishing boats.
- Kalmunai has two new commercial areas, basically populated with new businesses.
- There are no industries or industrial estates.

Panelists agreeing with the statement described 1) *their personal experiences*: started a business selling bakery equipment; established a new petrol station, started a new business selling hardware and furniture. They also identified 2) *other new businesses*: jewelry factories; a factory for fishing boats; banks, finance companies; hand loom businesses; a rope factory; net cafes; vocational training centers; gymnasiums; sweet making; string hopper makers; spicy snack producers; small garment businesses; rice sweet ball makers; bakeries; shops selling cheap clothing from India and Singapore; Cargills and Damro; and described 3) *pre-conditions* for establishing new businesses: remittances from abroad; the end of war and of illegal “taxes.”

Those disagreeing with the statement did not deny the existence of new businesses but argued 1) their *insignificance*: overall, there are few new businesses; there are no industries or industrial estates.

By most accounts, Kalmunai is teeming with new businesses. Given that many of these start-ups are less than two years old, it may be too soon to determine if they will lay a firm foundation for future growth. Kalmunai's status as the “hub” of the East hangs in the balance.

### **4. “Opportunities to expand new businesses and start new ones are increasing in this community.”**

Panelists were substantially in agreement in their responses to this statement. Five sixths either agreed or strongly agreed. Their answers ranged from mention of human, natural, and financial resources available to potential investors to proposals for promising new businesses. Notable observations by panelists included:

- Banks are prepared to make more loans; opportunities to expand businesses or start new ones can be supported.
- “Our religion and culture make our people think twice about entering the tourism business.”

- There are 19 stalls at the bus stand that have not been leased for the last four years. “That is our weakness.”
- Home tailoring is one opportunity for women; but not many are interested due to low income.
- There is an opportunity for small garment factories to sell in the local market if new designs are introduced on a regular basis.

Those panelists agreeing with the statement offered 1) a *catalogue of possible new businesses*: tourist hotels; small garment factories to serve the local market; weaving/handloom factories to serve the tourist industry; processing of dairy products; a rice mill; additional jewelry factories; a fish cannery; vehicle accessories and services; a bone grinding operation; offshore fishing; sweet making [for school children]; bakery machinery sales; and 2) *support facilities* for new businesses: public warehouses; an exhibition and conference center; a night bazaar.

Those disagreeing with the statement expressed 3) their *reservations*: the banks favor large investors; the municipality has been unable to tender bus station stalls.

In identifying opportunities, Kalmunai business people generally appear to be optimistic and attentive to their environment.

#### **5. “The people of this community are more prosperous.”**

Panelists were broadly in agreement in their responses regarding this issue. Three quarters disagreed or strongly disagreed with the statement. Only one sixth agreed or strongly agreed. In several cases panelists offered insightful socioeconomic descriptions of the local population. Many also cited the rapidly rising cost of living for all residents as an important factor in shaping local prosperity. Notable observations by panelists included:

- Before, during the war, people didn’t spend due to fear. Now they spend.
- People have more money due to remittances from abroad and job creation.
- Most people in this community are jobless. Fisheries and agriculture are badly affected.
- New combined harvesters are putting people out of work.
- “Only 10-20% of residents are prosperous. The others have to fight for their food.”

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- “Maybe 10% of the population is living below the poverty level. Others are relatively prosperous.”

Those disagreeing with the statement proffered 1) *socio-economic typologies* to explain their responses: the 80-90% who “have to fight for their food” are farmers, laborers, and even small business owners; most families are lower and middle class, and spend most of their income on food and clothing; most residents are jobless; only 10-20 % are prosperous; new harvesting machines are eliminating jobs; about 45% of the population are unskilled laborers who are “not doing well” and 10% are government servants who have “just enough”; the poor are farmers [renters and sharecroppers], fishermen [competing with Indians], and agricultural laborers [losing jobs to jobs to combine harvesters]. They also presented 2) their *theories regarding underlying causes*: rapidly increasing cost of living; recent floods undercutting the income of farmers and middlemen; job loss due to new harvest machinery; and made 3) *general observations*: “a lot” of key money is required to secure market stalls, along with monthly rent of Rs.20,000-25,000; people who give the appearance of being prosperous often have underlying problems [e.g., a failing business].

Frequently intense responses to this statement suggest that local prosperity is an issue of considerable interest. Business people appear to be concerned both with the buying power and welfare of their fellow citizens.

#### **6. “Businesses are trying for more positive influence on relevant government units including the LA, DS, and PC.”**

Panelists professed differing views regarding this issue. Two thirds chose to agree or strongly agree with the statement, thus indicating at least some familiarity with advocacy efforts on behalf of local businesses. A scattering of responses from other panelists suggest they are unfamiliar with any such efforts. Although the statement doesn’t specifically call for a judgment regarding the success of advocacy efforts, several mentioned

their distress at the unwillingness of government units to respond to business concerns. Notable observations by panelists included:

- “Rapport with the government has increased.”
- There have been discussions with the Revenue Department regarding income taxes and with the Municipal Council about the assessment tax and business licenses.
- The trade association has approached Municipal Council regarding “common things”—roads, garbage collection, drainage, street lights—but there has been no approach regarding *policies* affecting business.
- There have been discussions with the Divisional Secretary about releasing land for building sites.
- There are 19 unassigned shops at the bus stand; Tamils are “demanding their share.”
- Business women are not organized; there was a group previously, but the tsunami displaced some active members out of the area.

Those agreeing with the statement cited 1) *specific examples of advocacy work*: business people have already requested the MC to attend to bus stand [un-leased shop spaces], timely road repairs, improved street lighting, and construction of a slaughter house, with no observable results; monthly meetings of the Private/Public Working Group bring together representatives of business and the MC monthly; the Divisional Secretary was approached about releasing land for building sites; the trade association approached the MC regarding roads, garbage, drainage, and street lighting; the Rural Women’s Development Society approached government units regarding assistance for pre-schools; dialogues were undertaken with the Revenue Department regarding income tax, and with the MC regarding the assessment tax and business licensing. Panelists also offered 2) *explanations for success or failure*: advocacy efforts have increased since The Asia Foundation assisted with forming the Working Group; the Mayor is unable to effectively manage municipal departments; “MC people are free to attend workshops and dialogues; business people do so at greater cost”; and 3) *general comments*: “We need to do more [advocacy].” “Business women are not organized.” “There are separate trade associations for Muslims and Tamils.”

Those disagreeing with the statement essentially 1) *denied advocacy work is being undertaken*: “We register our businesses and pay taxes, that’s it.” There is “no real relationship” between government and business; businesses are willing to collaborate, but government units never do anything for business. “We are willing taxpayers, but we can’t meet a mayor or district secretary easily.”

A solid majority of panelists recognize the existence of business advocacy in Kalmunai. Unfortunately, relatively few believe such efforts have had any observable effects.

## **7. “The MC/UC is taking practical steps to improve the business environment.”**

Panelists professed two differing views regarding this issue. Nearly two thirds disagreed or strongly disagreed with the statement. One third expressed at least mild agreement. Negative responses focused on inadequate services, inconvenient procedures, an uncooperative attitude among elected and administrative personnel, and poor overall management. Positive responses focused on adequate delivery of some services and, in a few cases, recent procedural improvements. Notable observations by panelists included:

- “The private sector expects quick service; the Municipal Council is slow.”
- The Mayor means well, but he is over aged.
- “There are 19 shops at the bus stand that have not been tendered after four-and-a-half years.”
- “They are putting up more street lamps.”
- There have been improvements in garbage service [neighborhood bins] and road repairs.
- “Business licensing is improving.”

Panelists disagreeing with the statement focused their comments on 1) *inadequate service delivery*: services are generally slow; the central library is “like a cattle shed”; the main market structure is in poor condition; and 2) *poor management*: “They don’t even have a shed for parking their vehicles.” “They are providing only 10% of the needed services.” Overall administration needs to be improved. The MC should provide a modern shopping complex. “They can’t even provide good facilities for themselves. How can they provide good services to the public?” Some businesses are unregistered and not paying taxes. They also describe 3) *inconvenient procedures*:

processing licenses is not easy; there is “favoritism” in providing street lighting; and 4) *uncooperative attitudes*: discussions about service improvements have had no results; the MC is politically divided.

Panelists agreeing with the statement offered 1) a variety of *compliments*: the Mayor “means well”; business licensing is improving; garbage bins have been introduced; road maintenance is improving; they are installing more street lights; there is a beautification campaign involving proverbs on sign boards; there are plans to construct a parking lot; services in the core area are adequate [if not in the “interior places”].

Most business people are unimpressed with services offered by their local government. On the other hand, they have limited understanding of how little the city receives from major revenue sources—the assessment tax and business licenses.

**8. “The government policies that affect business operations in this community—laws, regulations, procedures, safety and security—are improving.”**

Panelists professed differing views regarding this issue. Nearly two thirds disagreed or strongly disagreed with the statement, while nearly one quarter agreed and one sixth professed too little knowledge of government policy issues to adopt a firm opinion. Those disagreeing or strongly disagreeing often mentioned government pronouncements that have not been followed up by concrete actions. Those in agreement mentioned specific government actions—dialogues conducted, committees formed, or simpler tax payment procedures. Notable observations by panelists included:

- “I have no great feeling that the government is supporting business.”
- Government departments deal with the public “without any respect.”
- The government allows Indians to come and sell cheap saris door-to-door.
- “We were trying to organize a trade fair, but got no support from the government.”
- “We can easily import now.”
- There is now some flexibility in the income tax system. “They have eliminated the [Provincial Council] BTT and simplified payment through the NBT.”

Those disagreeing with the statement mentioned 1) *generally unsatisfactory practices*: government departments show a lack of respect and don’t consult citizens on important decisions [e.g., a decision on importing chickens]; officials using “harassment, not encouragement,” and due to low salaries, soliciting bribes; officials “penalizing” businesses by acting on new regulations without conducting information campaigns first; and noted 2) *specific shortcomings*: officials declining to support a trade fair; the inconvenience of traveling to Batticaloa to pay taxes; Indians who are allowed to enter the country to sell door-to-door, to the detriment of local business; businesses required to post prices on every item for sale, an inconvenience for some businesses [e.g., jewelry shops facing daily fluctuations in the gold price]. They also offered 3) *general comments*: unlike the previous UNP government, this Government is “closing the system” and making it harder to do business [e.g., with a new tax on banking transactions]; the Eastern Province is weak compared to others.

Panelists agreeing with the statement noted 1) *modest progress*: tax payments have been simplified; importing has been simplified.

Most panelists expressed negative views on policies affecting their businesses. However, only a few demonstrate a detailed understanding of the policy framework.

**9. “The basic resources needed to run a successful business in this community—roads, banks, transportation, parking and traffic management, street lighting, phone and internet services, electricity, water—are improving.”**

Most panelists were firmly in agreement on this issue. Five sixths agreed or strongly agreed. While nearly all mentioned at least one source of dissatisfaction—poorly maintained interior roads, inadequate street lights, parking problems—a solid majority feel their businesses are no longer significantly hampered by inadequate basic services. Particularly significant observations by the panelists included:

- “All services within ‘the bundle’ are improving over time.”

- “If we want to start a rice mill we can easily get electricity, water, and road access.”
- The inter city roads have been greatly improved and the checkpoints are gone.
- “Travel time to Batticaloa has been reduced from three hours to one.”
- Traffic has been [somewhat] improved. The main street is one way, and there are efforts to control cattle.
- In any case, with more vehicles on the roads, traffic needs to be managed.

Panelists agreeing with the statement frequently praised 1) *specific services*: inter city roads [faster trips to Batticaloa and Colombo]; banks [eliminating the need for trips to Colombo]; electricity; phone and internet service. They singled out 2) *other services* less often: street lighting; transport services [especially buses]; water supplies; traffic management [specifically one way traffic on the main street].

Panelists disagreeing with the statement also focused on 1) *specific services*: parking [the odd-and-even-days system is not being enforced]; traffic management; drainage; interior roads; street lighting; electricity; bus service [no buses after 5:00 p.m.]. They also mentioned 2) *absent services*: no public toilets; no adequate bus stand.

Collectively, panelists are pleased with recent advances in the basic resources needed to run their businesses. But most recognize that further improvements are needed to sustain business growth.

#### **10. “The long-term outlook for business in this community is promising.”**

Panelists were united in their views of the future. Eight ninths of respondents chose to strongly agree or agree, demonstrating substantial optimism about business over the next 10 years. Notable observations by panelists included:

- “There is a big sawmill and a furniture factory. They indicate a promising future.”
- “Compared to 2000, the business situation has improved 75%. This will be further improved in the future.”
- The trend is to expand, to use improved technology, to offer more products. This should bring continuing growth.
- “We have the University and the political opposition has the ‘Greater Kalmunai Development Program.’”
- Businesses need to be modernized, otherwise they will perish.
- “Government policies and the officers’ approach will play a major role. If these are supportive, there will be a brighter future.”

Panelists agreeing with the statement described 1) *positive signs and trends*: business growth over the past ten years is estimated by a panelist at 75%; a sawmill and furniture factory have been established; brokers for doing business in Colombo are no longer required; businesses are expanding, using improved technology, and offering more products; many shops have been expanded to three or four stories; NGOs are helping with a “green city” concept; the Habibi Bank from Pakistan has its only Sri Lankan branch in Kalmunai; “I know nothing of the computer, but my eight year old son uses it a lot.” They also offered 2) *general comments*: in the future, people won’t need to go to Colombo at all; the SLMC is part of the government—we are expecting factories, public buildings, and more banks; Tamils are coming from out of town to use the municipal market and government hospital, both in Muslim areas; this year there are 30 Tamil students at the English Tuition Center, last year there were none; religion is now less restrictive for women in business; and suggested 3) *needed pre-conditions* for a promising future: agriculture and fisheries are the main sectors that need to be improved; supportive government policies are essential; if the city is beautiful, people will come; “God willing,” and with reasonable government support, the future is promising; “We need a ‘visionary mayor’ to improve services, strengthen internal administration, identify projects, and solicit funds.”

Finally, there were a few 1) *pessimistic sentiments*: “Unless there is change in the minds of the bureaucrats, there won’t be change in the economy.”

Widespread optimism, tempered by caution and anticipation of possible setbacks, is a resource that business and government leaders can build on while planning for sustained development.

### SECTION 3—Asia Foundation Comments

In the future, when constructing a quantitative measure or index of the business environment in secondary cities, for purposes of comparison, we may want to employ the use of tiers. This is because a few points of difference should not be considered important, but assignment to the same or different tier should be noted. For example, seven of the towns are in provinces that were most severely affected by the war, and are now proceeding through roughly equivalent recovery processes. It is only where communities are separated by one or two tiers that substantial psychological and institutional differences should be inferred. Asia Foundation consultants and staff members who participated in interviews in Badulla and Bandarawela, for example, can attest to such differences. The two towns are in the same district and separated by a brief one hour drive. But the content and tone of panelist responses varied dramatically. Bandarawela business people were almost invariably upbeat and enthusiastic, while those in Badulla were inclined to be pessimistic and cynical. The contrast between Bandarawela and Matale, four tiers apart, is even more dramatic.

It is striking that respondents in three towns located well outside the war zone—Galle, Matale, and Badulla—were generally less positive in their outlook than respondents in seven towns more directly affected by fighting and militarism—Jaffna, Mannar, Ampara, Vavuniya, Trincomalee, Kalmunai, and Batticaloa. Lacking an obvious break in the routine of managing their businesses, panelists in Galle, Matale, and Badulla were inclined to focus on their own problems and on shortcomings in their community. Panelists in the Northern and Eastern towns had experience of a clear “line in the sand.” They described the end of the war as a fundamentally important turning point for business and daily life. Compared to the recent past, there are broad opportunities to invest and innovate. This optimism and “sense of the possibilities” is a positive resource, one that can be harnessed in planning and implementing a comprehensive development strategy. In contrast, towns lacking a clear “line in the sand” [such as Galle, Matale, and Badulla] need to build such support. A preliminary strategy is needed to help business people and government officials to discover their “sense of the possibilities.”

Kalmunai, the largest town on the east coast and “treasure house of the Eastern Muslims” has the negative distinction of being the largest town in Sri Lanka that is not even a district center for administration. Ethnic divisions within the town are clearly reflected in segregated neighborhoods, and built into the administrative system through creation of separate Muslim and Tamil Divisions. Panelists, including Muslims and Tamils, men and women, sent mixed signals about their town. On one hand they are disturbed about a lack of dynamism—a dearth of hotels and restaurants, shops that close and buses that stop running in the early evening, traditional business practices. On the other hand they are quite optimistic regarding business opportunities and the future.

Through their responses, panelists were most positive in response to one statement:

- *The long-term outlook for business in Kalmunai is promising:* Panelists cited sound reasons for optimism—new firms, expanded businesses, shops remaining open into the evening hours. But it is worthy of note that panelists in Batticaloa and Trincomalee were also quite optimistic. Panelists clearly remain in a *post-war expansion mode*, and are deeply appreciative of the personal and business benefits that flow from peace, free movement, and autonomous decision-making. In any case, their optimism is potentially useful resource for future development planning and implementation, perhaps for the family tourism concept outlined below.

Finally, the least positive responses were assigned to three statements:

- *Existing businesses are expanding:* Panelist responses to this statement were not negative overall, but were relatively lukewarm compared to responses of their counterparts in other towns. Those agreeing with the statement described *personal experiences* with expansion: a small grocery has added three employees; a woman who lost her garment business to the tsunami has rebuilt her business to six machines; a garlic retailer has become a wholesaler; a photo printing shop has added equipment and computer software; a tire dealer has begun to deliver to his customers. They followed up with *observations on other businesses*: jewelry shops expanded to small factories; firms adopting air conditioning and cash registers; fish from Kalmunai now sold in the South. Panelists also offered

*general observations*: bank lending has made it easier to expand; remittances from abroad and returned emigrants are also funding expansion; 80% of business vehicles are purchased under bank loans or leases. Panelists disagreeing with the statement offered *general comments*: some businesses are shrinking due to competition from new village markets; [many] shops haven't been modernized; "People feel that business has 'gone down,' so there is little expansion; and *personal experiences*: a stationery business has not been modified because profits have stagnated.

- *The people in Kalmunai are more prosperous*: In general, panelists demonstrated they have given considerable thought to issues of poverty and prosperity. Some reasons for this are fairly obvious. Merchants observe people spending [or not spending] money every day. And profits in many businesses fluctuate with shifts in the welfare of ordinary citizens. But panelist observations seem to extend well beyond self-interest. It is notable that two thirds of communities included in the study, the predominant response to this statement has been to *disagree*. The "easy" response for panelists would have been to assert that all their fellow citizens are well-to-do. The fact that they choose to *disagree* suggests there is a genuine concern for the welfare of others. Observations regarding job creation, unemployment, and underemployment give further evidence that this concern exists.
- *The government policies that affect business operations are improving*: Responses to this statement were substantially more negative than in 13 other towns. Those disagreeing with the statement mentioned *unsatisfactory practices*: government departments showing a lack of respect and not consulting citizens on important decisions; officials using "harassment, not encouragement"; and soliciting bribes; officials "penalizing" businesses under new regulations without conducting information campaigns first; and noted *specific shortcomings*: officials declining to support a trade fair; the inconvenience of traveling to Batticaloa to pay taxes; Indians allowed to enter the country to sell door-to-door; businesses required to post prices on every item for sale. They also offered *general comments*: unlike the previous UNP government, this Government is "closing the system" and making it harder to do business. In contrast to these gloomy observations, panelists offered only a few positive comments: "We can easily import now." There is now some flexibility in the income tax system.

Two significant issues arose spontaneously during interviews:

*Party-based partisanship in local governance*: If we examine numerical data only, panelist ratings of the Kalmunai Municipal Council fall in the middle range. The numbers are negative, but don't fall to the low levels of Matale, Vavuniya, or Galle. However, qualitative observations by panelists suggest a different situation from the straightforward criticism offered in other towns. Some critics went to unusual lengths to discredit the current leadership, including personal attacks on the Mayor and allegations of incompetence and corruption among municipal staff. On the other side, some panelists seemed to serve as apologists for the current Council majority. These observations seem consistent with accounts in recent years of a municipal government in Kalmunai that has been brought to a standstill by extraordinarily high levels of conflict. The conflict appears to be centered mainly within the Muslim parties, with Tamil politicians relegated to the sidelines.

*An ethnically-divided town*: Kalmunai is physically and culturally divided town. Tamils live to the north side of the Municipal Building and Muslims to the south. The cultural and religious divide has been embedded in the administrative system since separate Tamil and Muslim Divisions were established in the town several years ago. There are also ethnic-based trade associations. These spatial and administrative realities do not necessarily imply there is significant ethnic tension at present, or that open conflict is likely to break out soon. [Some policy makers and academic observers would argue that the current setup plays a significant role in preventing tensions and conflict.] However, they do establish ethnicity as a fundamental feature of social, political, economic, and administrative systems in the town. A worldview constantly shaped by ethnic prejudices is likely to pose significant barriers to establishing the trust and collaboration needed to carry Kalmunai toward sustainable development.