POLITICAL-ECONOMY PROFILES

A Brief Report on the Business Environment of Jaffna Town

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

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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—Analysis

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 Jaffna 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 Jaffna 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 Jaffna 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 Jaffna. 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 Jaffna 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 were substantially in agreement on this issue. Nearly two thirds either agreed or strongly agreed with the statement. Less than one quarter disagreed, while one indicated uncertainty by choosing to "neither agree or disagree." In explaining their answers panelists referred to experiences in their own businesses, observations on other firms, and broad changes in the town. Notable observations by panelists [some positive, some negative] include:

- "After the end of restrictions, people are freely buying and selling."
- Foreign remittances [from the Diaspora] bring more sales, more turnover, more growth.
- "Now, shops and restaurants are open to 11:00 or 12:00. Before it was only until 6:00."
- Before, Jaffna was 100% cash-based; big business people are being enticed into a credit culture.
- "Activities are just starting. There is no growth yet. Industries and the jobs they bring have not made a start."
- "50% growth is here. Another 50% depends on 'the situation.'"

Panelists emphasized the significance of the end of the war, citing: 1) *psychological impacts:* the day-to-day situation is normal; businesses have moved from a "standstill"; the town has opportunities to regain the pre-eminent position it enjoyed before the war. "Business people, including us Muslims, like this situation." "Before there was business 'inside a circle' and people lived day to day." "Outsiders are coming and challenging local businesses with new attitudes and practices"; and *2) physical changes:* "We can access the A9 highway." "With access to building materials people are improving their houses and shops." "If the infrastructure is 'fine,' business people have more confidence." They also noted: 3) *administrative/procedural changes:* With the end of wartime restrictions, it is easier to bring machinery, chemicals, and other inputs for a small industry; and 4) *economic benefits:* An open market; increasing employment; expanding tourism; free flow of goods; stable prices; and investment from the Diaspora. "Within one kilometer you can see 12 banks, all doing well." "Our market, concentrated in the North in wartime, can now be global." They also offered 5) a variety of *general observations* reflecting their optimism: Many "outsiders" [from the Diaspora] came in July, normally a quiet business month. The hospital is being improved with JICA support. International travel agents came to meet with hoteliers; they are getting bookings and plan to promote the area.

However, extensive optimism was tempered by some 1) *more cautious assessments:* The global recession has slowed remittances from abroad. Roads and buildings are being constructed; that doesn't mean the economy is growing. There were 25 years of restrictions; changing the "mindset" will take time. "Growth has only been about 30% of the potential level." "Infrastructure is better in the East"; and 2) downright *gloomy statements:* The local economy is not growing due to exploitation by powerful people. Many major businesses left Jaffna in wartime—cement, asbestos, fruit and vegetable processing—and haven't been re-established. Before the war, 100 lorries per day carried full loads <u>to</u> Colombo, as well as back to Jaffna. Now 85% of those lorries travel <u>to</u> Colombo empty. "There is favoritism toward the Sinhalese."

Responses to this statement suggest that, collectively, Jaffna businesses are "cautiously positive."

2) "Existing businesses in this community are expanding."

Panelists were broadly in agreement in their responses regarding this issue. Five sixths agreed or strongly agreed with the statement; only one sixth disagreed or strongly disagreed. Some observations were highly personal, others described the experience of neighbors or friends, and some addressed the general situation. Notable observations by panelists included:

- "In the final year of the war, a bag of cement cost Rs.2,500. Now it's Rs.700."
- "People are replacing wooden cupboards with aluminum and glass cases and installing AC."
- "I have installed a computerized paint mixer. It takes time for people to become familiar with new technologies like this."
- A Muslim businessman has re-opened some shops after returning from the South in 2001. Most improvements have been made since the war's end."

- There is insufficient support from the banks and government. The smallest businesses can't supply a security bond.
- "Colombo firms are underselling us, at prices lower than they charge in Colombo."

Those agreeing with the statement offered numerous examples [in addition to those noted above] of 1) *personal businesses expanding:* including electric ovens for a bakery; new furniture stocks, purchased in China; new machinery and production line for a small industrial operation; an upstairs storage area for a shop in the market; a new tile floor replacing cement in a retail shop; an expanded ice cream parlor. "We now stock vehicle tires and tubes, and have added 2-3 employees." "My business, bicycle parts, has been diversified into barbed wire production." They also described 2) *expansion of other businesses:* "Most businesses have expanded with remodeled showrooms, new furniture, and new equipment [e.g., electronic scales]." "Some firms have begun to export; some have taken on new agency contracts; some are dealing in new products." "Hotels, textile shops, and wedding halls are expanding." "The construction sector is expanding." They also identified a few 3) *contributing factors* to expansion: most expansion is self-financed; younger men are using their dowries to expand. "Immediately after war's end, there were no experienced tile installers. Initially, outside workers came. Now, local men have learned the trade."

Panelists disagreeing with the statement made: 1) *contrary assertions:* Only about 5% of businesses have expanded. Some earlier local industries— e,g., cement and glass factories—have not been re-established; and offered brief 2) *explanations:* An "unsettled situation" persists because the government refuses to seek a solution to ethnic issues. "Banks are lending to a limited crowd." Many businesses have "succession issues," i.e., children are in Colombo or abroad, and have little interest in business. There is a lack of skilled workers. Many families receive remittances, spend lavishly, and don't care about investing. The MC is very slow in approving building permits.

The many examples offered by panelists leave little doubt that Jaffna business is in a period of expansion. However, a few counter examples and cautionary statements may point the way toward a clearer understanding of the risks and barriers that businesses face.

3) "New businesses are being established in this community."

Panelists were substantially in agreement on this issue. Fourteen of 18 agreed or strongly agreed with the statement; only one sixth disagreed or strongly disagreed. Panelist observations covered personal experiences, general observations on new businesses, and conditions favorable and unfavorable for starting businesses. Notable observations by panelists included:

- "In Stanley Road, rents have increased 5-10 times due to demand for shop space."
- "In some residential areas, people are building small shops in front of their homes."
- The Chamber of Commerce and Industry provides their 400+ members with information on feasible new businesses.
- "I started my new business in the hospitality sector with an investment of Rs.10 million. I have a staff of 15."
- New banks are coming because of high profits in pawning and leasing.
- "Most new businesses are started by outsiders, only a few by local people."

Panelists offered a catalogue of 1) new businesses that are *branches of national companies*: banks; finance companies; leasing firms; insurance companies; share market brokers; air ticketing agencies; courier services; vehicle dealers; showrooms [Abans, Singer, Browns, Hayleys]; building construction firms [many started by outsiders]; mobile phone service providers [Airtel, Hutch, Suntel, Dialog]; Money Gram services [provided in many firms]. They also enumerated 2) new *locally-owned businesses:* timber suppliers; small manufacturers of building materials [cement blocks and posts]; pharmacies; hardware shops; mobile baked good sellers [immigrants from the South]; net cafes; carpentry workshops; hotels and guesthouses; furniture shops [including sellers of steel office furniture]; clothing and textile shops; food packaging firms; a water bottler. A manufacturer has started new businesses in manufacturing fiberglass fishing boats, agricultural equipment, and ice plant machinery, and in seafood processing. An elegant new restaurant/caterer serves authentic Jaffna dishes, plus South Indian and Chinese items.

Some panelists offered 1) *cautionary statements*: "Most new businesses are started by outsiders, only a few by Jaffna people." The banks are not helpful to inexperienced people. The police were recently inquiring about the source of investment funds. After the initial "excitement," arrivals of local tourists will decrease. "Tourism is not packaged properly." Jaffna people are of the mentality of "not going beyond their comfort zone." A few panelists ventured 2) *straightforward disagreements* with the proposition that new businesses are being introduced: "I can't see any new businesses being established." Jaffna people are afraid to start new businesses.

It is indisputable that new businesses are being established in Jaffna, although this is not apparent to some members of the community. It is appropriate for local business owners and managers to assess the role of those firms in building a sustainable, local business environment.

4) "Opportunities to expand new businesses and start new ones are increasing in this community."

Panelists were uniformly positive in their responses to this statement. Sixteen of 18 strongly agreed or agreed with the statement; only one disagreed. Answers ranged from numerous proposals for promising new businesses to mention of human, natural, and financial resources available to potential investors. Notable observations by panelists included:

- "We need a hotel school and 'service excellence' training."
- Big corporations could come here; there is no issue about finding educated employees.
- "We need the British Council, Alliance Francaise, and German Cultural Center for language training."
- "If the harbor is re-opened, it will create opportunities similar to those we had before the war."
- The most profitable business is still "buying and selling."
- Opportunities in manufacturing remain limited due to: unreliable electric power; limited access to credit; the lack of an industrial estate.

Observations agreeing or strongly agreeing with the statement identified needed and promising business ventures in: 1) *agriculture and fisheries:* vegetable processing, e.g., canned *seeni sambol*; prawn and fish processing; poultry and egg production; a grape farm; restored coconut plantations; 2) *tourism and hospitality:* hotels; taxi service; wine production; hand loom operations; caterers; bottled water; fast food restaurants, e.g., Pizza Hut; 3) *industry:* furniture production [a Rs.50 million plant is planned]; weaving mill; shoe factory, e.g., ladies' sandals; garment factories; steel-based manufacturing; [restored] glass and aluminum factories; 4) *consumer goods and services:* super markets; vehicle servicing; stationery; and 5) *construction:* contractors; ready made concrete; timber dealers; manufacture of asbestos sheets [it takes months to order them from Colombo]. Panelists also identified: 6) *enabling conditions:* the need for a restored port, upgraded technology, training in up-to-date business knowledge, and formal training for tourism employees to complement their "cultural inclination for good service." "We need a comprehensive tourism plan." The Chamber of Commerce and Industries is providing its 400+ members with information on feasible new businesses such as: garments; seafood processing; coir products; fruit juices; palmyrah products; jaggery; toddy; arrack; handicrafts; stationery; printing.

Panelists also offered 1) *general observations,* both positive and negative: Without the war, Jaffna would have been "like Singapore." "Jaffna could become an 'international playground.'" It is mostly Diaspora people who are organizing in the service sector. "There is interest from people in the Diaspora, but not so much action. Many of them want to run businesses *in absentia*." Southern people are coming and "selling in the road" [thus undercutting local businesses].

Business people in Jaffna are clearly scanning local resources and trends in market demand and identifying significant opportunities. Their collective optimism was reflected in their enthusiastic and detailed responses to the statement.

5) "The people of this community are more prosperous."

Panelists professed two differing views regarding this issue. Nearly two thirds agreed or strongly agreed that all or most residents of the town have more money to spend, while more than one third disagreed or strongly disagreed with this view. Those in agreement identified recent economic trends and a strong flow of remittances from Diaspora families as the sources of greater prosperity, while those disagreeing offered sociological analyses of the local population that stressed the presence of an under class. Notable observations by panelists included:

- People know how to survive under difficult conditions. In 1992-95 there was a complete ban on imports. No medicines, fuels, or building supplies.
- Foreign remittances allow people to spend more money on consumption items.
- "A monthly remittance of 200 Euros makes a family very comfortable. But it can also make young people [with an allowance and motorbike] dependent and too lazy to work."
- "We prioritize education. Education is the wealth of Jaffna."
- "60% are prosperous. But some still lead unsatisfactory lives, frustrated because they are not in Colombo."
- "We need to remove the poor level, get everyone up to the middle level."

Panelists who agreed with the statement very frequently noted 1) the importance of *foreign remittances:* "A lot of foreign money is floating here." Half are getting remittances. "Many people get money from abroad." "Every family has a foreign connection. Due to this, money is flowing."; and offered 2) *optimistic socio-economic analyses* of local prosperity and poverty: "75% are prosperous. Of these, 25% get remittances, 25% are traditionally prosperous, 25% are hard workers, and the remaining are laborers at the poverty line." "60% have money and 'facilities.'" "The majority are better off." "20% are on the upper level, 40 % are in the middle, and 40% have low income."

Those disagreeing offered 1) more *pessimistic analyses:* Many displaced people are still suffering in their daily lives. Even formerly rich people have lost everything, and are only now getting re-established. "65% are poor. Some are getting remittances, but not investing." "10% are at the high level [business people, doctors, engineers]; 40% at the middle level [government workers]; and 50% are poor [farmers, laborers]." Those without remittances must rely on laboring jobs and deal with inflation. "Many families receive low bank interest on their remittance funds, spend it on consumption, and become dependent." "The skilled jobs are taken by Sinhalese."; and 2) *general statements:* In wartime, people were afraid to invest; many still are. "Outside carpenters with their higher quality standards and punctuality are getting the work." "People are moving easily, but that doesn't mean they're prosperous." "There are still police inquiries about sources of investment funds. It's easier to keep money in bank accounts [than to invest]." Many outsiders have businesses [Abans, Cargills, banks] and don't contribute to the local economy.

Most panelists are convinced that a solid majority of local citizens are sharing in the general prosperity. A few are less certain. We can assume their interest in this subject has two bases: a genuine interest in the welfare of their fellow citizens; and the need to keep an eye on the customer base.

6) "Businesses are trying for more positive influence on relevant government units including the LA, DS, GA, and PC."

Panelists professed differing views regarding this issue. Nearly two thirds agreed or strongly agreed with the statement, thus indicating at least some familiarity with advocacy efforts on behalf of local businesses. Responses from other panelists suggest they are unfamiliar with such efforts. Although the statement doesn't specifically call for a judgment regarding the <u>success</u> of advocacy efforts, several mentioned their distress at the unwillingness of government units to respond to business concerns. Notable observations by panelists included:

- "We lobby with all the local body heads."
- There have been discussions about a proposed industrial estate, but so far no action.
- The Chamber persuaded the Municipal Council to collect garbage twice a day in commercial districts.
- There were recent negotiations between stall holders in a city-owned business complex and the MC. The result was compromise—somewhat higher rents and a negotiated annual "sales tax."

- Certain sectoral trade associations that went "underground" during wartime are only now becoming active again.
- "Although the Chamber of Commerce is there and collecting membership fees, there are no services to members."

Those agreeing with the statement cited: 1) *examples of advocacy work:* The Chamber has approached the banks about soft loans. The Hoteliers Association successfully approached the Tourism Board regarding difficulties in completing onerous licensing requirements, successfully brokering an agreement under which applicants receive a temporary certificate and six months to complete documentation. Stall holders in the city commercial complex negotiate with the MC regarding maintenance, preparation of gardens in public areas of the complex, and management of traffic on adjacent roads; and acknowledged the 2) *need for such work:* When stall holders of a city-owned commercial complex face individual problems, they approach MC officials directly. When they have a shared issue, they request the Chamber of Commerce to intervene. Panelists also took this occasion to comment broadly on the effectiveness of 3) *services offered* by business groups: the associations of bakery owners, hair dressers, construction firms, and hoteliers have been re-established and are working on behalf of their members; the Bakers' association has launched a co-operative buying operation on behalf of its members; the Hoteliers' Association advises members on registration with the Tourism Board, including writing letters of support, and providing guidance on proper documentation; and members of both Chamber organizations described their 4) *history of effective support* for local governance efforts during wartime: e.g., relief efforts with displaced families, and livelihood programs.

Those disagreeing with the statement often 1) *denied knowledge of advocacy work:* "There are organized forums, I'm not so sure what is discussed." "Sometimes big businesses lobby for their issues. I'm not part of it." There is no particular need to approach officials; and also offered 2) *negative general comments:* "Government units are not properly providing services now. Why should we expect them to respond when we ask them to provide more?" The Chamber of Commerce offers no services to members. Business people are missing essential information regarding regulations.

A solid majority of panelists recognize the existence of business advocacy in Mannar. However, only a minority believe such efforts have had observable effects.

7) "The MC is taking practical steps to improve the business environment."

Panelists professed two diverse views regarding this statement. More than half agreed or strongly agreed that the municipal government is taking useful steps to improve conditions for business. A third disagreed. Positive responses focused on satisfactory delivery of some Municipal Council services and, in a few cases, recent procedural improvements. Negative responses focused on inadequate services, inconvenient procedures, and an uncooperative attitude among elected and administrative personnel. Notable observations by panelists included:

- "Nowadays, we're getting proper service. The toilets in the business complex are cleaned adequately [four times daily]."
- The PHI came and explained all the requirements for getting a restaurant license.
- "They have a lot of enthusiasm."
- "They lack the facilities to perform their assigned services. It's only now they're getting five tractors for garbage collection."
- "I can't see any impact on the business environment by the MC."
- "Our experience with the MC is bad."

Observations agreeing with the statement included: 1) recent *procedural and infrastructure improvements:* "Approvals for tourist hotels are provided smoothly." They provided temporary toilets during a Chamber-sponsored trade fair. Public health inspectors give restaurant managers advice on sanitation, and advise on sending employees for physical examinations. A complaint to the Mayor regarding garbage removal got a quick response. MC staff created a garden in a central area of the commercial complex. Stall holders are requesting more gardens; and 2) better *services*: "Services are improved compared to one year ago." The PHIs spray for mosquitoes. "Garbage collection has improved." They are cleaning the drains. "They are carpeting some roads. Maybe they don't have enough funds to do them all." Finally, they offered a few 3) *mildly supportive general*

comments: "The [elected] MC has worked here for only two years. They need more time to undertake programs and give financial support." They perform adequately "within the limits."

Negative observations included varied complaints about 1) *MC management:* There is poorly managed garbage disposal. "They can't even deal with drainage problems near the general hospital." They are building a commercial complex on a lake bed without any "mitigation." A request for expanding a small industrial building has languished for seven years. "I'm unaware of any efforts to support business." There are delays in providing environmental licenses. A plan for sorting waste wasn't implemented properly. "As usual, we have to bribe to get the services."

Many business people are favorably disposed toward their city government. They appreciate standard services that many feel are provided adequately. Some opined that elected Councilors, only two years in office, deserve more time to prove themselves. Inevitably, a few panelists asked "What have you done for me lately?"

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

Panelists offered a range of responses on this issue. More than three quarters agreed that some improvements have been made. The remainder either denied that significant improvements have been made or noted that they are waiting for announced policies to be effectively implemented. Notable observations by the panelists included:

- There are lower import duties on electronic goods.
- The Government supports investment through special Central Bank loan facilities.
- "Government policies and programs—Environmental Protection Licenses, EPF and ETF employee benefits, the Investment Board—support my business. Before there were no officers."
- Earlier there were onerous Ministry of Defense restrictions. "Now that's relaxed."
- "Earlier an industrial license was good for three years, now only one.
- "Many policies are not known. Officers are not user friendly."

Panelists agreeing with the statement mentioned 1) specific *policy initiatives:* soft loan facilities; lower import duties on some items; Government agreement to waive payment of Employee Provident Fund arrears; establishment of a Tourism Board mobile services system to enable business people to register closer to home; widespread efforts in upgrading infrastructure. "We were excused from paying tax arrears." "They are developing all the infrastructure—roads, electricity, water, drainage"; and commented on 2) *implementation* of those policies: some tax officers are friendly; banks are more co-operative; income taxes. "Price controls, tax collection procedures, and food sanitation rules, are only now getting established. It takes time for people to adapt." "People should know about the regulations and abide by them." "Formerly, Jaffna was 'lawless,' now certain laws and regulations—e.g., on garbage delivery and criminal acts—are being enforced. This helps business run smoothly." They offered a number of 3) *positive general comments* on the policy milieu: "The policies are good; officials are thinking 'wide range' though some may object to paying taxes." Every city needs the same attention that Hambantota is receiving. "The Government has a clear vision, but there are obstacles from 'the other side.'"

Some of those less favorably disposed toward current policies: 1) lodged *general complaints:* Large companies are supported by Government, small ones aren't. The Government still hasn't addressed the issues of businesses affected by the War. "Policy impacts are half good, half bad." "The Government mainly supports the Sinhalese." The "packaging" of loan programs is not done properly.

One individual argued that Jaffna business people are unsophisticated, asserting "we are simple people who don't use credit cards, ride 50 cc motorbikes, and wear slippers." The reality is more complex. Panelists varied considerably in their knowledge of government policy initiatives and in understanding their purpose. Overall, however, they demonstrated a moderately high level of knowledge regarding programs and policies that affect them.

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—are improving."**

Panelists gave two diverse responses on this issue. Nearly two thirds strongly agreed or agreed with the statement, while about one quarter disagreed or strongly disagreed. Virtually all panelists singled out at least one or two basic resources for praise, and at least one that still needs improvement. Notable observations by the panelists included:

- "We are 100% satisfied with phone service."
- "Jaffna has luxury buses."
- There is a "big improvement" in banking and other financial services.
- "Roads are gradually improving."
- "People don't drive properly. Getting them under control is important for traffic management."
- "Electricity is provided by a private company, with fluctuations daily. This is a dragging issue."

In addition to observations listed above, panelists offered 1) *strong positive support* on: phone services [but some providers are better than others]; internet services ["But, there are no internet facilities in this market."]; transport services ["Private people are doing transport."]; roads [but they need to be improved more]; banks ["There are over 20."]; piped water [but many families and businesses use well water]. There were 2) fewer *positive comments* on: parking ["But they are beginning to face the problems."]; street lighting; traffic management; electricity [it is better than in the past].

They reserved their most negative comments for 1) *electricity:* it is not adequate for industrial activities; power failures are a major issue for the ice plants; "Jaffna is losing potential investors as they come and see that the power is not sufficient for their businesses." "There is very low current in our baking oven, and no power on Sundays." "We have no generator; I hire one when we cater a big party." But they also complained about 2) other *basic resources:* roads ["They're very slow on upgrading the A9 highway."]; parking [in the commercial areas]; traffic management [there is no plan, and problems are intensified by daily drop-off and pick-up of school children]; transport services [a lack of long distance buses leaving mid-day]; banks [they make their money on pawning and leasing; deposit interest is very low]; water [wells are polluted due to the absence of sewer pipes].

The challenge of poor electricity services may not be readily served through community-level advocacy and action. But the issue might be taken up at the provincial level, as a problem that poses particularly strong barrier to business growth and regional development.

10) **"The long-term outlook for business in this community is promising."**

Panelists were broadly in agreement that the future for business in their community is promising, with five sixths either strongly agreeing or agreeing with the statement. However, a few tempered their optimism by noting pre-conditions that are needed, or by mentioning threats to sustained development. Only one ninth expressed outright disagreement with the statement. Notable observations by panelists included:

- "It will be like Singapore. We have more natural resources than Singapore."
- "Today, a Singapore firm is beginning to raise 13 ships in the harbor [preparatory to port restoration]."
- "Next month there will be flights to Chennai."
- "We will be one of the hubs. We can get an Indian visa and go off. We don't need to import or export through Colombo."
- "Before, we lived 'within the circle.' Now any business you can think of you can do."

Panelists reflected on 1) *advantages the end of the war has brought:* "There's a green light for the future." "Now any business you can think of you can do"; then catalogued 2) *the strengths of their town:* access to funds from the Diaspora; the KKS Port and Pilaly Airport will facilitate flow of goods and people. "It will be a business hub and tourist destination." "There are now Jaffna/Colombo luxury coaches. People readily pay the Rs.1,100 fare." Due to adequate wartime health and education programs, human resources are satisfactory. There is rapid

change across the North, "even in Kilinochchi"; and 3) proposed *measures to enhance future prospects:* there must be a long-term plan; infrastructure and programs must "bundled" in the proper way. There was particular emphasis on the need for a 4) *political solution:* "We are looking for a political settlement. With it, development will come and Diaspora people will be willing to invest." "We need two changes: a good 'political package' for the Tamils, and productive investment of remittance funds." "Ten years are more than enough, if the Government can come to a political solution."

Relatively few 1) *negative comments* were offered: "Things are not moving toward normal." Government activities support only those who support the Government. "While business sales and turnover are high, profit is limited." Past agreements [toward a political settlement] have never been honored. "People are still waiting for 'correct signals' from the Government: resettlement completed, High Security Zones canceled, roads fully repaired."

Most panelists in Jaffna foresee a promising future for themselves, their children, and their businesses. But several stressed the need for a political settlement to ensure continued growth. Many seem prepared to play an active role in ensuring movement in the right direction.

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."

Jaffna is a district and provincial capital, and the acknowledged cultural and commercial center of the North. Despite decades of warfare and hardship, local business people are generally optimistic about their future.

- *Existing businesses are expanding:* Those agreeing with the statement offered numerous examples of *personal businesses expanding:* electric ovens for a bakery; new furniture purchased in China; new machinery and production line; a storage area; a new tile floor for a retail shop; an expanded ice cream parlor. "We now stock vehicle tires and tubes, and have added 2-3 employees." "I have installed a computerized paint mixer." They also described: *expansion of other businesses:* remodeled showrooms; new furniture and equipment. "Hotels, textile shops, and wedding halls are expanding." They also identified *contributing factors*: self-financing; younger men are using their dowries to expand. "In the final year of the war, a bag of cement cost Rs.2,500. Now it's Rs.700." The few panelists disagreeing with the statement offered brief *explanations:* An "unsettled situation" persists because the government refuses to seek a solution to ethnic issues. Banks lend to a "limited crowd." There is a lack of skilled workers. Many families receive remittances, spend lavishly, and don't care about investing.

- *Opportunities to expand or start new businesses are increasing:* Panelists readily identified business opportunities in *agriculture and fisheries:* vegetable processing; prawn and fish processing; poultry and egg production; a grape farm; restored coconut plantations; *tourism and hospitality:* hotels; taxi service; wine production; hand loom operations; caterers; bottled water; fast food restaurants; *industry:* furniture production [a Rs.50 million plant is planned]; weaving mill; shoe factory; garment factories; steel-based manufacturing; and [restored] glass and aluminum factories; *consumer goods and services:* super markets; vehicle servicing; stationery; and *construction:* contractors; ready made concrete; timber dealers; manufacture of asbestos sheets. Furthermore, they demonstrated they have seriously considered these possibilities by identifying *enabling conditions:* a restored port; upgraded technology; training in up-to-date business skills; formal training for tourism employees; a comprehensive tourism plan; a hotel school; 'service excellence' training; "the British Council, Alliance Francaise, and German Cultural Center for language training."

- *The people in Jaffna are more prosperous:* Unlike their counterparts in most other towns in the profile survey, most panelists were relatively sanguine about the wealth and welfare of their fellow citizens. They frequently noted the importance of *foreign remittances:* "A lot of foreign money is floating here." "Many people get money from abroad." "Every family has a foreign connection. Due to this, money is flowing"; and offered *optimistic socio-economic analyses* of local prosperity: "75% are prosperous." "60% have money and 'facilities.'" "The majority are better off." "20% are on the upper level, 40 % are in the middle, and 40% have low income." Others offered *interesting observations:* People know how to survive under difficult conditions. In 1992-95 there was a complete ban on imports. No medicines, fuels, or building supplies. "A monthly remittance of 200 Euros makes a family very comfortable. But it can also make young people dependent and too lazy to work." Those disagreeing offered more *pessimistic analyses:* "65% are poor. Some are getting remittances, but not investing." Those without remittances must rely on laboring jobs and deal with inflation. "The skilled jobs are taken by Sinhalese." In wartime, people were afraid to invest; many still are. "Outside carpenters with their higher quality standards and punctuality are getting the work.

- *The government policies that affect business operations are improving:* Unlike most of their counterparts, panelists in Jaffna were [collectively] rather positive about the current policy environment. They mentioned specific *policy initiatives:* soft loans; lower import duties on some items; Government agreement to waive Employee Provident Fund arrears; establishment of Tourism Board mobile services; efforts in upgrading roads, electricity, water, and drainage; and commented on *implementation* of policies: some tax officers are friendly; banks are more co-operative. Earlier there were onerous Ministry of Defense restrictions. "Now that's relaxed." "Government policies and programs—Environmental Protection Licenses, EPF and ETF employee benefits, the Investment Board—support my business. Before there were no officers." "Formerly, Jaffna was 'lawless.' Now certain laws and regulations, e.g., on garbage delivery and criminal acts, are being enforced." They offered *positive general comments*: "The policies are good; officials are thinking 'wide range,' though some may object to paying taxes." "The Government has a clear vision, but there are obstacles from 'the other side.'" Some of those less favorably disposed lodged *general complaints:* Large companies are supported by Government, small ones aren't. The Government still hasn't addressed the issues of businesses affected by the war. "Policy impacts are half good, half bad." "The Government mainly supports the Sinhalese." "Many policies are not known. Officers are not user friendly."

Three major concerns emerged spontaneously during profile interviews in Jaffna:

The need for a "political settlement": Some panelists argued that full-blown economic development and significant investment by locals and the Diaspora must await a "political settlement" between Tamil leaders and the national Government. While the terms of the settlement are not clear to outside observers, the need for it is firmly settled in the minds of many business people and other residents of Jaffna. However, a majority of panelists <u>did</u> <u>not</u> mention this issue, implying that their view of current challenges and opportunities is not strongly affected by it.

The impacts, positive and negative, of remittances from abroad: A substantial majority of panelists mentioned this issue one or more times during profile interviews. Most are convinced that remittances contribute mightily to local wealth and welfare. However, many also expressed reservations about this source of funds. Two points were aired most often: 1) the money may create an undesirable level of dependence in recipient families; and 2) the funds may not be used in ways that are most productive for the local economy.

Shortcomings in electricity service: Many panelists lamented that power cuts are both unpredictable and frequent, and expressed their concern that even the current level of service is unsustainable. Several noted that the current supply is based entirely on large generators, not from a power plant or other permanent power supply.