POLITICAL-ECONOMY PROFILES

A Brief Report on the Business Environment of Vavuniya 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 n 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 15 interviews in Vavuniya 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 Vavuniya 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 Vavuniya 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 15 business people selected as panel members in Vavuniya. 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 Vavuniya business at a point in time, in this case March 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 broadly in agreement in their responses to this statement. Four fifths agreed or strongly agreed. Only one fifth disagreed or strongly disagreed. Observations varied from explanations of why panelists agreed to observations on results. Notable observations by the panelists included:

- Before three years ago, all the shops were closed by 4:00 p.m. "Only the street dogs were left."
- "I have settled my bank loan and am now self-financed."
- "You can see it. In war time no land was cultivated. Now people have more money and there is economic growth."

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- "Since the end of the war, growth is a little slower. Refugees are returning to their home places and starting businesses."
- "Former 'un-cleared' areas now have their own businesses. Consequently, my tractor parts and sales business has been reduced 70%."
- "I belong to seven committees—Chamber, trade association, mosque federation, peace committee, Red Cross, school development society."

Panelists agreeing with the statement noted 1) *signs of growth:* hotel occupancy up from 40% to 90%, later shop closures, outsiders coming to shop, commercial property purchases, use of combine harvesters on nearby farms, construction of a rice mill, and social activism of business people; and cited 2) *causes of growth:* reclaiming and cultivation of agricultural land in formerly "un-cleared" areas; the arrival of banks, finance companies, and leasing companies; the entry of outside investors; establishment of contract growing systems; large numbers of bus travelers passing through; availability of construction materials [e.g., crushed stone]; and Vavuniya's central position as the "gateway to the North."

The smaller number of panelists disagreeing with the statement noted 1) some *divergent evidence:* growth recently set back by flooding and a financial scam affecting scores of local business people; Northern business people and consumers bypassing Vavuniya to shop in Colombo; difficulties in getting a bank loan for an industrial project; a contractor with problems in pre-qualifying for government construction bids; and retail credit customers who are lax in paying debts.

The panelists' evidence for economic growth is generally convincing. However, those disagreeing with the statement rightly pointed out real and potential hindrances to sustained growth, factors worth considering as residents of the town begin to develop plans for the future.

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

Panelists were broadly in agreement in their responses regarding this issue. Four fifths agreed or strongly agreed with the statement, while other responses were scattered across the remaining categories. Some observations were highly personal; others addressed the general situation. Notable observations by panelists included:

- A timber supply business added a second story, expanded the work/display space, and purchased new vehicles.
- An agricultural equipment and supplies dealer now delivers purchases in a new lorry, opened a new sales center, and added ten employees.
- A hardware and agro-chemicals supplier has increased daily sales from Rs.50,000 to Rs.250,000 and added sales representatives, new sub-dealers, and new brands.
- Another person lost Rs.5 million in the recent financial scam, a pyramid scheme, and thus is unable to expand.
- New firms operated by inexperienced business people are failing.
- Many older businessmen are facing dropping sales.

Those agreeing with the statement offered numerous examples, in addition to those noted above, of 1) *businesses expanding:* a timber dealer has upgraded to sell a full line of construction materials; an electronics business has added a second story, expanded to Jaffna, and added new products, such as flat screen TVs; a three wheeler parts shop has expanded its inventory; a video rental/photography business has purchased a digital printing machine and processing lab; a garment manufacturer began marketing her products in more northerly districts; a provider of facials and wedding makeup for brides now rides to her assignments on a new motor bike; a bookstore has added a new stationery line; the owner of a business occupying a rented shop has now bought the entire building for Rs.25 million; a project to add new rooms to a hotel was started, but has been suspended due to a recent economic downturn; a family business producing snacks now delivers in a new lorry. Panelists also identified a few 2) *contributing factors* to expansion: ready support from finance and leasing companies, consumers with more "needs" than they recognized before, the opening and upgrading of Highway 9 to the North.

Those disagreeing with the statement offered: 1) a few *negative statements:* no new buildings are being constructed; some older business people face sales declines while some younger ones experience outright failure of their new businesses; businesses located to the north of Vavuniya are establishing direct supply relationships with Colombo firms, thus withdrawing their business from Vavuniya; and 2) an *explanation:* an "unsettled situation" persists because the government refuses to seek a solution to ethnic issues.

Numerous examples offered by panelists leave little doubt that Vavuniya 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 broadly in agreement in their responses regarding this issue. Four fifths agreed or strongly agreed with the statement. The new businesses most frequently identified were branches of Colombo firms—banks, finance companies, leasing agents, single brand showrooms. But a variety of firms established by individual investors were also noted. Notable observations by the panelists included:

- "Now there are the same brands and products as in Colombo."
- New businesses now include three more hotels, five wedding halls, and more retail shops.
- Before there were five jewelry shops; now there are more than twenty.
- "Before there were two women offering beauty services in their homes. Now there are six shops."
- Natives are not starting new businesses. "It's people from the South."
- During the war, new businesses faced demands for protection money. With this threat gone, people are eager to invest.

Panelists who agreed with the statement enumerated 1) *branches of Colombo or international companies:* banks, finance companies, leasing companies, show rooms, insurance brokers, vehicle agents, phone service subscribers; agricultural equipment sellers. They also identified 2) *numerous individual or family firms*: hotels; wedding halls; concrete block factory; petrol station; high tech welding operation; food processors; vegetable middlemen; local "super markets"; and shops for hardware, electronics, ceramic tiles, jewelry, furniture, mobile phones. They also volunteered 3) *cogent observations* about the business environment: many firms are started by "business people from the South"; while new shop owners may be "outsiders," employees are mainly local Tamils; agricultural equipment can be ordered by phone from newly established branches of Hayley's or CIC.

Those disagreeing with the statement offered 1) *cautionary observations:* only small shops are being started; there are no new industries; Chamber membership isn't growing; plans to construct a three star hotel stalled when the potential investor was unable to raise the 20% matching fund required by a subsidized loan program.

By these accounts, Vavuniya 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. Vavuniya's status as the "gateway to the North" hangs in the balance.

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

Panelists were broadly in agreement in their responses to this statement. Two thirds agreed or strongly agreed. One fifth expressed reservations, either denying that realistic opportunities exist, or questioning whether local business people are ready to respond. Most panelists have at least thought about this issue and some appear to have an eye on specific business prospects. Notable observations by the panelists included:

- 75% percent of high value crop seeds that are currently used come from Thailand.
- There are a lot of bare lands that can be allocated as industrial sites.
- There are opportunities in dairy farming and local processing—yogurt, instant curd, packaged milk drinks.
- There are opportunities in processing papaya, mangos, tamarind, and limes.
- More services can be provided for night bus passengers—e.g. late night restaurants.
- Political interventions are everywhere; many opportunities are open only with the ruling party's support.

Those agreeing with the statement identified 1) *specific business prospects:* fruit production and fruit processing; value-added dairy products;, high value vegetable seeds; poultry farming and production of chicken mash; agrochemical sales for paddy and other crops; production of plastic irrigation pipe; services to bus passengers—e.g., late night restaurants, more sophisticated photo processing. They also described 2) *necessary pre-conditions* to realize opportunities*:* marketing skills of owners and managers; allocation of land for industrial sites; less political interference; and 3) *potentially valuable additions* to the local business environment: more local markets in rural areas; a wholesale vegetable marketing center [similar to Dambulla's]; readily available technical training.

Panelists disagreeing with the statement noted 1) *current barriers* to business innovation: apparent government disinterest in reaching a political accord with Tamil parties; lagging technologies—e.g. milled rice that does not meet Thai standards; sub-standard grading and packaging; and overly-expensive, non-mechanized farming methods; lack of raw materials; and competition from businesses being established elsewhere in the North.

Panelists are generally agreed that additional business opportunities exist in their town. Most believe significant government assistance—e.g., applied research, technical training, allocation of government lands, establishment of major new facilities will be required to take advantage of some of the opportunities. Some are doubtful that needed assistance will be forthcoming.

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

Panelists professed two differing views regarding this issue. Only one third agreed or strongly agreed, while two thirds disagreed or strongly disagreed. It was in response to this statement that the importance [or unimportance] of remittances from overseas family members was most often mentioned. Particularly significant observations by the panelists included:

- Sales have dropped as customers are affected by the high cost of living.
- Recent floods damaged crops and lowered agricultural incomes, thus having a negative impact on businesses in the town.
- After decades of war, and losing their homes and livelihoods, 75% of local residents live "day to day."

  VS
- Most of the IDPs have returned to their homes. Thus the people who remain "averagely have money."
- A foreign exchange dealer handles "Moneygrams" from abroad averaging Rs.2.5 million per day.
- Many households are diverting much of their income to repaying consumer loans they have accepted.

As in most other communities included in the secondary cities study, a solid majority of panelists believe many of their fellow citizens are <u>not</u> prosperous. Those disagreeing with the statement 1) described the *predicament of poor residents:* they live "day to day," are still affected by losses during the war, are accumulating bad debt, must work harder to earn enough money, have no access to "luxuries" such as canned and packaged food, and have trouble buying school supplies for their children. A few panelists offered 2) *socio-economic typologies* of their fellow citizens: one example imagines "four kinds" of people: a) those with "good rapport" at the bank; b) jewelers/pawn brokers; c) those with money, but don't invest; and d) those who lack work and are poor because

the previous three don't create jobs. They also offered comments on: 3) *relative affluence:* business people are doing "OK"; government workers earn only one-third to one-half as much as NGO workers.

Those who agreed with the statement and believe there is greater prosperity in Vavuniya noted 1) the *importance of remittances* from abroad: transfers varying from Rs.10,000 to Rs.10 million, payments used for consumption [about 70%] and investment [about 30%]; but, as a result, some receiving them become "lazy" and "don't like to work."

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 held varying views regarding this issue. Almost half agreed or strongly agreed. Two fifths disagreed or strongly disagreed. In general, those agreeing with the statement appear have direct knowledge of policy discussions within business organizations and of dialogues between business people and government officials. Those disagreeing appear to lack specific knowledge of advocacy efforts. Notable observations by the panelists included:

- Policy discussions were undertaken with government units on the following:
    - A tripling of rents at the industrial estate.
    - Problems regarding business registration.
    - Issues regarding issuance of permits for sand removal.
    - A proposal for an agricultural commodity wholesale center.
    - Removal of pavement vendors.
    - Garbage collection.
- "Businesses have no platform to talk to the Urban Council or Divisional Secretary."
- "Business people are busy with their businesses."

Panelists agreeing with the statement offered brief 1) *advocacy case studies:* a) Contractors were frustrated in their efforts to procure sand for construction projects. A license, procured from the Divisional Secretary's office, was required for each job. Bribes were solicited each time. The issue was taken to the District Enterprise Forum. Although the Divisional Secretaries did not bother to attend the meeting, they promised to instruct employees to end this practice. b) Officials at the DS office imposed many documentation requirements prior to registering new businesses—e.g., tax payment receipt, construction completion report, property deed. After years of war and unrest, the documents are sometimes unavailable. The Chamber sent a letter of protest, and officials promised a more flexible approach. However, after a year there has been no change in procedures, and many businesses remain unregistered. Panelists noted 2) the *positive side* of these cases: previously, under military control, such protests would have been impossible.

Panelists disagreeing with the statement 1) *discounted the importance* of advocacy efforts: business people, and their government counterparts are "too busy" for dialogue; business people are "pessimistic" about such efforts, hence seldom try; they lack advocacy skills; and most efforts end with "no results," "no change," "no support."

Panelists were invited to make observations on the existence of advocacy efforts, not necessarily on their success. Nevertheless, in a setting where several issues have been aired in the short period since the end of hostilities, it is not surprising to detect a cynical tone in many accounts of these efforts.

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

Panelists were broadly in agreement on this issue. About three quarters strongly disagreed or disagreed. Only one quarter expressed positive views of their local government. Most panelists singled out specific services, generally for criticism, only occasionally for praise. Notable observations by the panelists included:

- "Garbage collection is the only thing they're doing in an excellent way."

- "The UC is doing more work. They have improved the side roads, developed the drainage system, and cleared the Vavuniya Tank."
- Required approvals—e.g. building permits, street line permits—are given smoothly.
- "There are problems 'in the UC itself.' The Chairman resigned today."
- There is no proper parking place for buses; roads are not repaired; building permits take too much time.
- Five or six Urban Council members are in business, but they are concerned only about their own firms.

Panelists disagreeing with the statement emphasized 1) *shortcomings in service delivery:* garbage collected at the wrong time [6:00 a.m.]; roads are not repaired; street light bulbs are not replaced; inaction on drainage problems; and 2) *inadequacies in regulation and management:* an issue about "middlemen" controlling town market stalls; delays in issuing Environmental Protection Licenses—sometimes dozens of visits are required; issuance of building permits is also slow; no proper parking areas; long delays in issuing land and property inheritance records; pavement sellers have been removed, but without providing alternate sales locations; no action was taken against buses blocking shop fronts; no new shop spaces have been built; rents have been raised on current shop spaces. Finally, they offered 3) *general criticisms:* the Chairman resigned today; Council members in business are concerned only about their own businesses; the UC is more concerned about collecting taxes than providing services; no effort has been made toward establishing a commodity wholesale center; and there is a general "lack of trust."

Panelists who agreed with the statement mentioned 1) *adequate service delivery:* frequent garbage collection; improved maintenance of side roads; better drainage system; cleaning of the town tank; expanded playground; expanded number of rental shops, and 2) *reasonably responsive regulatory functions:* approvals are given smoothly.

Overall, business people have little regard for their Urban Council. The best way for the Chairman and Council members to gain trust will be to make progress on some worrisome problem, perhaps a comprehensive effort to regulate and rationalize bus parking in the town.

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

Panelists professed two differing views regarding this issue. About half agreed and the same number disagreed. Most referred to specific government policies or programs, and opined that they are working well or poorly, or noted that "nothing happened" after some policy or program was announced. Notable observations by panelists included:

- "We'd like to live honestly [in paying our taxes]."
- Not much action has been taken on promised programs such as lands for industry and credit for entrepreneurs.
- Government banks lend to only 25-30% of the applicants.
- The "environmental police" will arrest people if the garbage is put out at the wrong time.
- The government implemented the Nation Building Tax and eliminated the Provincial Council's BTT. Now there is only one payment.
- The police have been supportive. They have agreed to supply night time security for shops, and have eliminated checkpoints in the town.

Panelist disagreeing with the statement noted 1) *inaction on announced policies:* of 300 tractors donated to Vavuniya District by India, none have reached local farmers; a new Ministry of Industries office in the District has convened no meetings, after announcing there would be monthly events; announcements on TV are not followed up in any way; monthly District Enterprise Forums are held, but bring no significant changes on such issues as road maintenance and health and sanitation; a request to tax collectors to "treat Northern taxpayers with sympathy" has brought no change in attitude; issuance of Environmental Protection Licenses remains a murky, inefficient process—one applicant was still unsuccessful after two years of visits to government offices. Panelists also reiterated some 2) *unsuccessful or indifferent advocacy efforts:* a dialogue with the police on

parking that has brought only minor improvements [e.g., buses parking a few feet further away from shops]; an unsuccessful effort to persuade tax officials to lower taxes and eliminate arrears.

Panelists agreeing with the statement seemed to focus on a small number of 3) *policy improvements:* a simplified tax system; more attentive police protection.

Business people are pleased with the stimulus to business the end of the war, and greater freedom of movement and choice, have brought. They are less impressed by economic policies and programs that have been announced in the months after the war.

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 were broadly in agreement in their responses on this issue. Two thirds agreed or strongly agreed with the statement, while only one fifth 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:

- The basic resources are "overall quite good."
- Privately provided services are "fine" overall.
- Street lights are OK in some places, not in others.
- There are fewer electric power cuts than before.
- Few people use the internet "productively."
- "What we have is still not enough."

Panelists offered 1) *positive comments* on: the internet [WiFi is now available], phone service, electricity, banks [only those with assets get loans], and main roads.

They made 1) *negative comments* regarding: parking, peripheral roads, traffic management, and street lighting.

Local officials will be wise to pay close attention to the issue of parking. It is clearly the major complaint of business people.

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

Panelists professed two differing views on this issue. Three fifths agreed or strongly agreed with the statement, while more than a quarter chose the more equivocal "neither agree or disagree" response. Most panelists responded to the statement with considerable interest, and laid out their analyses and areas of optimism and doubt in some detail. Notable observations by panelists included:

- "My effort to expand my building and my business is an indication of my optimism."
- If current conditions continue for ten years, good things will happen.
- Development of Jaffna and the upper North will have a positive impact on Vavuniya.
- There has to be a political settlement before there can be assured development.
- Vavuniya will remain as it is now.
- "This is a question we should ask to God."

Panelists based their positive judgments on varied evidence. Some considered 1) *personal experience:* "My business has grown from a single sewing machine to a factory"; business expansion is an indicator of optimism; while some 2) made *projections based on the current situation:* if these conditions continue, growth is assured; further development of Jaffna will be beneficial; new industries—garments and agro-based—are being planned; ten years of dramatic improvements will be followed by ten more; having people like the interviewers come around is a good sign; things will get even better, this is a transition period; greater security opens up greater possibilities.

But even self-professed optimists identified 1) possible *barriers or distractions* to sustained growth: progress "heavily depends" on the political situation; there must be a "political settlement" with the Tamil parties before progress can be assured; the recent scam [pyramid scheme] has made people lose confidence; the planned new town of Omanthi may undercut Vavuniya; there is no sign of foreign investment; there are still stringent security measures in place near Jaffna; locating a bus station outside of town may have a negative impact on some businesses; current bank loan time limits are too short; the government needs to "think about the people." Finally, there were a few 2) *openly pessimistic statements:* Jaffna is taking on the role of distribution center for the North, the area has reached its "peak," other places have more potential.

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.

Vavuniya, the self-described "gateway to the North, is a crossroads town and district center surrounded by farm lands that are being rapidly returned to full production. Its most striking physical characteristic is the domination of streets in the business core by the hundreds of buses and tens of thousands of passengers that stop briefly, then pass on through the town, every day. Vavuniya faced several influxes of war refugees, and thus benefited from the temporary presence of relief workers, NGOs, and IDPs who made at least minimal purchases. Now, the vast majority of refugees have returned to their homes elsewhere in the North and, in many cases, started markets and businesses that compete with those in Vavuniya. There is also the looming threat of Omanthi, a new town proposed by the Urban Development Authority, because that would draw businesses and customers away. Business people and government officials need to agree on a clear vision of the town's future, and then find mechanisms to work effectively toward their shared goals.

Panelists' responses established a relatively *low score* in one area:

- *The Urban Council is taking practical steps to improve business:* Business people have little faith in their Urban Council. The UC, the first elected body in the town after many years of control by civilian and military administrators, has not yet found a productive role. Several panelists mentioned an ongoing conflict with the Council that eventually brought the Chairman's resignation. Issues of leadership style and conflicts within and between parties brought this about. However, the Council's credibility has probably been damaged to a greater degree by a problem experienced daily by town residents. Hundreds of buses and tens of thousands of passengers dominate the streets of the urban core from early morning until late night.

Two issues arose spontaneously during profile interviews in Vavuniya:

The arrival of "outsiders": Several panelists expressed their fears that local businesses are losing out to outside investors and owners. Often they noted that these "outsiders" are Sinhalese business people from the Western, Southern, or Central provinces. There were clearly overtones of *ethnic resentment* in their comments. But other emotions can also be detected. Indigenous business people feel their *survivors' rights* have been ignored, that it is fundamentally unfair that they are being outdone by individuals and firms that did not share the dangers and

difficulties of conducting business in war-time. Panelists also alleged the presence of political favoritism in awarding construction contracts, providing bank loans from government-supported programs, and allocating government land for factory space.

The mixed benefits of remittances from abroad: Many panelists noted that local residents, notably Tamil families, receive regular remittances from family members abroad in Europe, North America, Australia, or the Middle East. In the first instance, they mentioned this as a fundamental element of the local economy. The funds ensure the prosperity of some families, and are sometimes the source of business investments. But several panelists made an additional point. They suggested that availability of the funds have fostered dependency, laziness, and frivolous expenditure. The implication is that more careful expenditure of these funds—e.g., for advanced education, establishing businesses, or building a financial portfolio—would benefit both the affected family and the wider community.