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**GROWTH IN AN EQUITY-ORIENTED SOCIETY
OPPORTUNITIES AND CONSTRAINTS
FOR REGIONAL DEVELOPMENT IN SRI LANKA**

**A Report Prepared for the
U.S. Agency International Development, Sri Lanka**

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First Draft: Colombo, December 14, 1988
Revised Draft: Dallas, December 24, 1988

1. INTRODUCTION

Sri Lanka has been afflicted by a succession of political crises resulting from poor economic performance and unequal access to the fruits of growth. Regional development programs have featured in each of the attempted solutions, as the country has sought to balance uneven growth with equity. But each of the regional initiatives has been a source of further political unrest. Thus, the massive Mahaweli river basin development program, a flagship of the 1977 economic liberalization, was seen by the Tamil population of the northern and eastern dry zone periphery to be a Sinhalese effort to colonize Tamil lands, and contributed to the ensuing political unrest of the early 1980s. Likewise, the Provincial Councils Act of 1987, a centerpiece of the settlement of the Sinhala-Tamil conflict, is viewed by the educated but unemployed Sinhalese youth of the south as pandering to Tamil interests by the English-speaking Colombo elite which dominates national politics, and has contributed to the radicalization of youth by the Marxist J.V.P., which is intent on destabilizing Sri Lankan politics and fostering a revolutionary takeover.

The result is yet another development crisis. At the Monday December 5, 1988, meeting of the Sri Lanka Association for the Advancement of Science, President Jayawardene said that several factors, in particular the growth of terrorism, had brought Sri Lankan development to a halt. The root causes run much deeper than regional development, of course. Several decades of controls and extensive governmental intervention in the economy have resulted in profound structural constraints that the major liberalization measures of 1977 failed to eliminate. While the 1977 policy changes produced a significant qualitative shift in the economy, the massive amounts of foreign aid that flowed into Sri Lanka in support of liberalization spurred domestic inflation and increased the real effective exchange rate while simultaneously permitting major public investment projects to be launched, running counter to the twin goals of producing a more outward-looking economy and reducing the role of the state (Ernst, 1988). The public sector still accounts for one-fifth of the country's labor force and one-half of the GDP. There was no real shift in the efficiency of public expenditure programs after 1977. Nor was the industrial sector reoriented towards export markets with the largest potential for growth (World Bank, 1988).

Sri Lanka therefore has decided to embark upon another round of economic reforms and adjustment. The key elements are:

1. **Administrative Reform**, reorganization of the Central Government with a view to rationalizing its administrative structure and reducing overstaffing. Wages have been raised. The plan is to reduce the number of Ministries to 16 and the number of civil servants by at least 25 percent, as well as to privatize many public enterprises.
2. **Restructuring Public Expenditures** to eliminate wasteful programs and increase the efficiency of spending in those remaining. Public expenditures are to be reduced from 33 percent of GDP in 1987 to 29 percent by 1990 (18 percent for current expenditures and 11 percent for capital), a level that can be financed from expected tax revenues of 20 percent of GDP.
3. **Industrial Reforms** to accelerate industrial growth and increase the export orientation of the manufacturing sector, and to privatize wherever possible.

The most effective role for USAID in Sri Lanka in the years ahead is an issue that arises as the agency wrestles with preparation of a new Country Development Strategy Statement (CDSS) within the framework of these projected reforms. Does involvement in regional development per se represent a strategic option? This is far from being a trivial question. Regional development has been of continuing concern to Sri Lanka, and has meant redistribution of resources and provision of services to those not sharing fully in the country's growth. A key element in the move towards needed administrative reforms was the passage of the Provincial Councils Act of 1987. This Act envisages substantial devolution of the country's development planning and administration, providing greater regional autonomy to the Tamil population as the price of internal security. If the Act survives response of national political parties to the J.V.P.-led protest by Sinhalese youth in the south, much of the development effort will become regional. But development designed to increase regional equity may cause efficiency to decline, resulting in a slower rate of economic growth and job formation. It therefore behooves USAID to appraise the implications of observed or observable patterns of regional economic development for policies at the national and subnational levels, and to see what data collection and analysis might be undertaken so that regional development concerns might be more readily incorporated into the agency's economic policy analysis and program and policy-level planning. The need is all the more pressing because it is the failure to provide jobs to educated Sinhala youth that has produced their alienation from what they perceive as the English-speaking Colombo elite, and their ready radicalization by the J.V.P. And it is J.V.P.-sponsored destabilization that has brought development to a halt.

This paper is a first cut at such an appraisal. It begins by reviewing salient features of the Sri Lankan development environment. Some attempt then is made to order the multiple flavors of regional development planning that have been attempted in Sri Lanka, before a number of strategic research/program opportunities are identified.

2. WHAT IS SPECIAL ABOUT SRI LANKA?

To the regional development specialist, several elements of Sri Lanka's geography and society stand out as critical to any evaluation of future alternatives. Among these are questions of scale and the pace of change, of core-periphery differentials and of the ethnic problem, and of the equity-orientation of the state.

The Question of Scale

The first of these elements is the **smallness of scale**, less than three times the population and barely thirty times the area of the city-state of Hong Kong. This smallness is both a disadvantage and an advantage. No part of the island's 25,000 square miles is more than a day by road from Colombo. The population of 16.1 million, many of whom are still engaged in traditional agriculture and among whom there are only 4 million urban residents, offers little scope for achievement of significant economies of scale based on domestic markets in many sectors. To develop, Sri Lanka must offer export specialties to a wider world of equally specialized trading partners. The country's growth potentials are dependent upon its export base -- upon the **comparative** advantages that Sri Lanka's regions are able to establish in international markets.

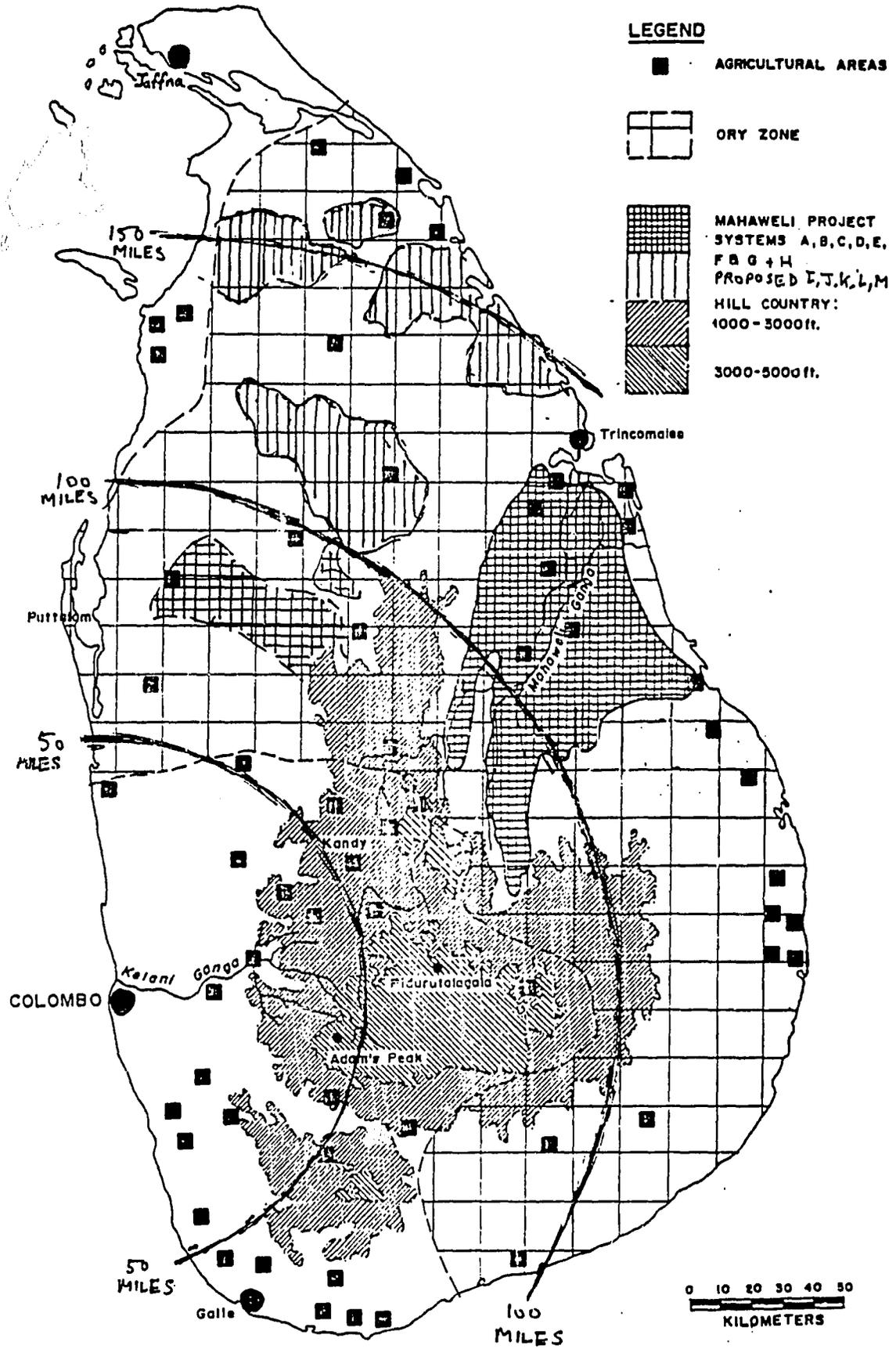


Figure 1: Sri Lanka -- Hill Country, Wet and Dry Zones and Mahaweli Project Areas

As noted, scale is both an advantage and a disadvantage. As late as 1977, merchandise exports accounted for 86 percent of Sri Lanka's receipts on current account -- 64 of these percentage points coming from the three principal estate crops, tea, rubber and coconuts. That this heavy reliance on a particular export base is not inevitable -- that there is both scope for development and the potential to achieve it with some speed -- is indicated by the fact that by 1986 the estate-crop economy, operating at relatively unchanged volume, accounted for only 25 percent of the nation's receipts on current account. The Sri Lankan export economy had been joined by textiles and apparel, which grew from .01 to 18 percent of current account receipts in the decade 1977-86, and by private remittances ("payments" for the "export" of Sri Lankan labor), which increased in the same decade from .02 to 16 percent, as the three principal legs on which the nation's growth is based.

In 1982 tourism looked as if it would grow to become a fourth basis of growth, accounting for 8 percent of current account receipts in that year, but internal disorders have prevented the full realization of the development potentials of much of Sri Lanka's coastal and cultural resources.

The Measured Pace of Demographic Change

A second feature of Sri Lanka, also an advantage, is the measured pace of demographic change -- an index, perhaps, of the success of Sri Lanka's social programs, providing the country with the luxury of being able to act rather than always having to react, like so many others, to the pressures of rapid population growth.

The infant mortality rate, which stood at 141 per 1,000 live births in 1946, was reduced to 23.1 by 1984. This combined with such activities as malaria eradication and reduction of intestinal diseases brought the crude death rate down from 20.2 per thousand in 1946 to 6.5 per thousand in 1984. The crude birth rate, 37.4 per thousand in 1946, fell to 24.8 per thousand by 1984 as mean female age of marriage increased from 20.7 to 23.5, as female labor force participation increased from 25 percent in 1963 to 31 percent in 1981, and as the family planning program progressed. The number of new acceptors of family planning methods exceeded 1.6 million 1975-1985, of whom more than 750 thousand selected sterilization as the preferred alternative for limiting their family size. The total fertility rate was 4.4 in 1971 and 3.0 in 1984; the net reproduction rate likewise fell from 1.7 in 1971 to 1.3 in 1984. Life expectancy at birth increased from 43.9 to 67.8 for males and from 41.6 to 71.7 for females between 1946 and 1981. The annual rate of natural increase, 1.72 percent in 1946, rose to as high as 2.55 percent in 1963 with the sharp initial drops in mortality, but subsided to 1.83 percent by 1984. (Such changes in the rate of natural increase show up in the rate of growth of the labor market two decades later, as youth passes from education to employment, and has surely contributed to the high unemployment levels of educated Sinhala-speaking youth in the south, and thus for the current unrest.) The actual rate of population increase in 1984 was only 1.34 percent, however, because the net emigration rate was 4.9 per thousand. This compares with a 2.45 percent growth rate and a net emigration of 1.0 per thousand in 1963. At a growth rate of 1.34 percent annually, it will take more than 50 years for the nation's population to double, a time period that is certain to increase because the vital statistics continue to trend downward. This provides the possibility to make changes ahead of growth, rather than being forced to react to demographic pressures, as is the case in so many parts of the world.

The net loss of Sri Lankans due to emigration approached 700,000 in the decade 1975-1985. In the same period, the private remittances back to Sri Lanka increased from \$9 million to more than \$300 million annually, coming, as already noted, to equal tea and textiles as a principal source of export earnings.

Core-Periphery Differentials

A third element of Sri Lanka's geography, one that it shares with many other developing nations, is the distinction between a more-developed core region and a less-developed periphery. What is different about these core-periphery differentials, apart from the ethnic differences that will be discussed later, is the smallness of scale.

Within a 100-mile radius of Colombo -- little more than the average outward reach for daily commuters of a developed-world metropolitan region -- lies the predominantly wet-zone core region. Beyond that radius is the dry-zone periphery.

The core includes the country's traditional export base, the wet-zone estate agricultures, and save for the grain mills at Trincomalee and the cement factories at Jaffna, the nation's manufacturing sector is concentrated at its center, in the Colombo area. Gross regional product per capita in 1981 was Rs.6,711 in the Western region that includes Colombo, but only two-thirds that level -- Rs.4,527 and Rs. 4,513 -- in the peripheral Northern and Eastern regions respectively (Ernst and Samaranayake, 1988). Like its metropolitan counterparts in the developed world, there is long-distance commuting: trains run each day between Kandy and Colombo and between Galle and Colombo.

Typically, a more affluent and dynamic core and an impoverished periphery raise questions of regional equity, especially because polarized growth will increase the differentials. But equally, the geographic scale of Sri Lanka is so small that even modest improvements in transportation and communications would markedly enhance the prospects for elimination of core-periphery differentials and their replacement by a national system of specialization and trade based upon the comparative advantages provided by the resource endowments rather than access differentials, as they have throughout the world. Improved transportation and communications mean greater at-farm prices, for example -- signals to which farmers are quick to respond. They mean an enhancement of the tourist potential of east coast and north shore locations previously eliminated as development prospects because access constraints were used to rationalize preferences for the core-region coastline.

Above all, at the geographic scale of Sri Lanka, such access improvement means that the periphery becomes effectively wedded to the core, a marriage that converts core-periphery polarization into a co-equal framework for interdependent development.

The Ethnic Problem

The fly in the ointment is that the core-periphery divide is not simply one of the advantages of concentration near a major city and of access and communications. It is the centuries-old gulf of divisive ethnic rivalries that have been intensified by patronage systems and party politics in a state-run economy. The core is Sinhala, whereas the periphery is Tamil. Core-periphery Sinhala-Tamil polarization once again came to the fore after 1983; it was ratified by the joining together of the northern and eastern regions in the Provincial

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**1984 INTERZONAL FLOWS OF
 FOOD PRODUCTS (TONNES)**

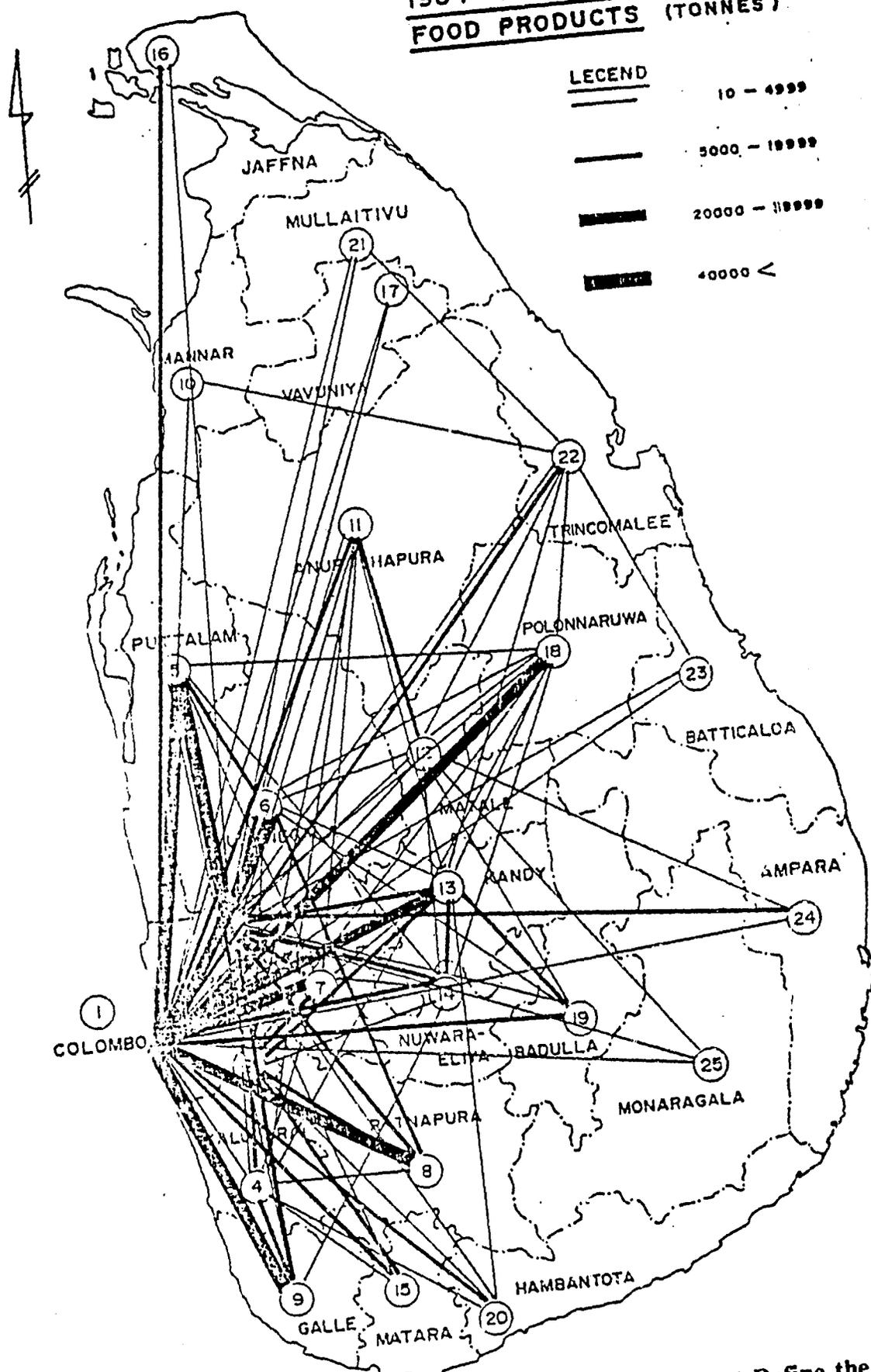


Figure 3: Food Product Flows also Center on Colombo and Define the Core Region

1984 INTERZONAL FLOWS OF INDUSTRIAL INPUTS (TONNES)

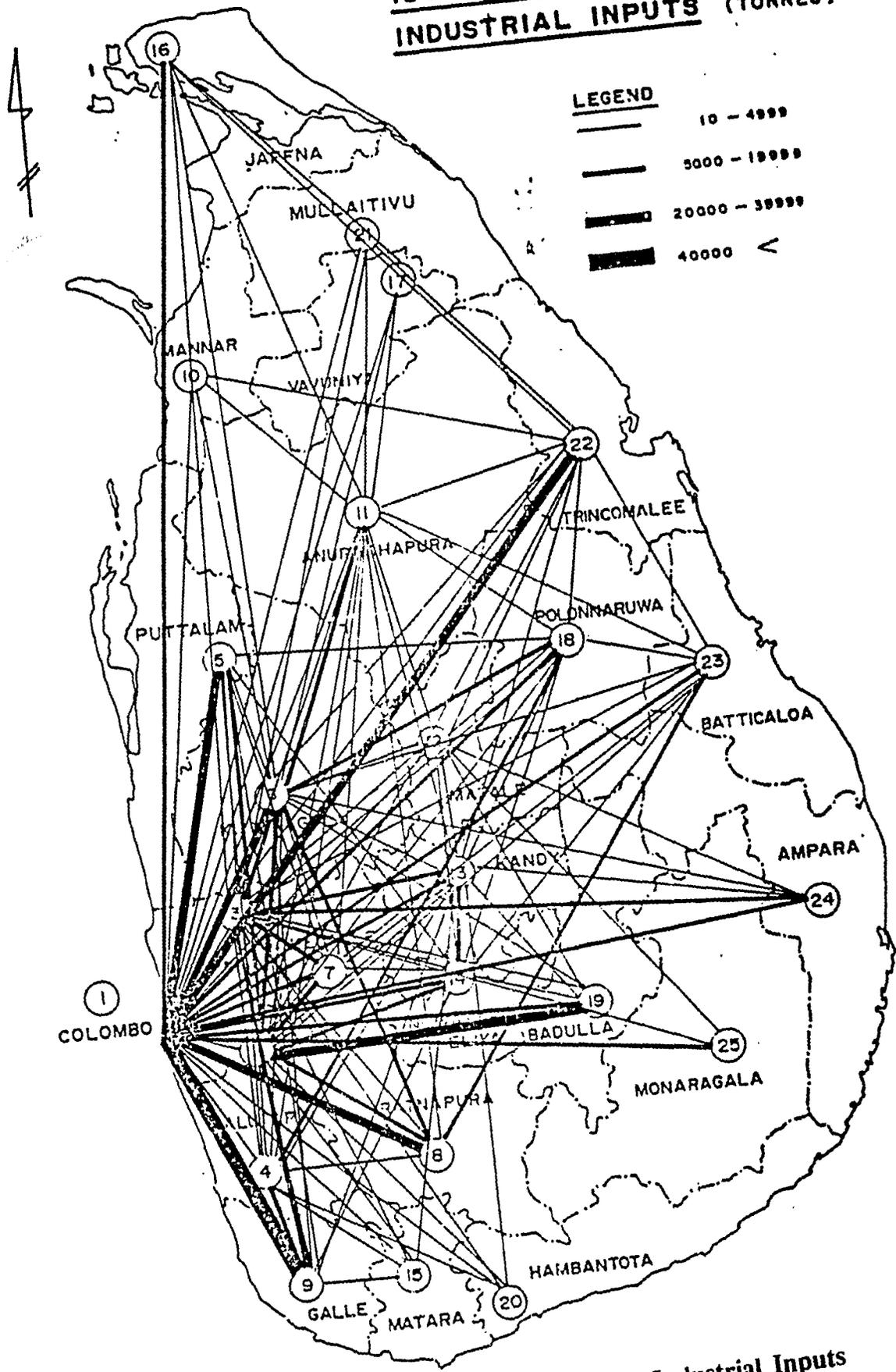


Figure 4: Interzonal Flows of Industrial Inputs

**TOTAL 1984, INTERZONAL FREIGHT FLOW:
(TONNES)**

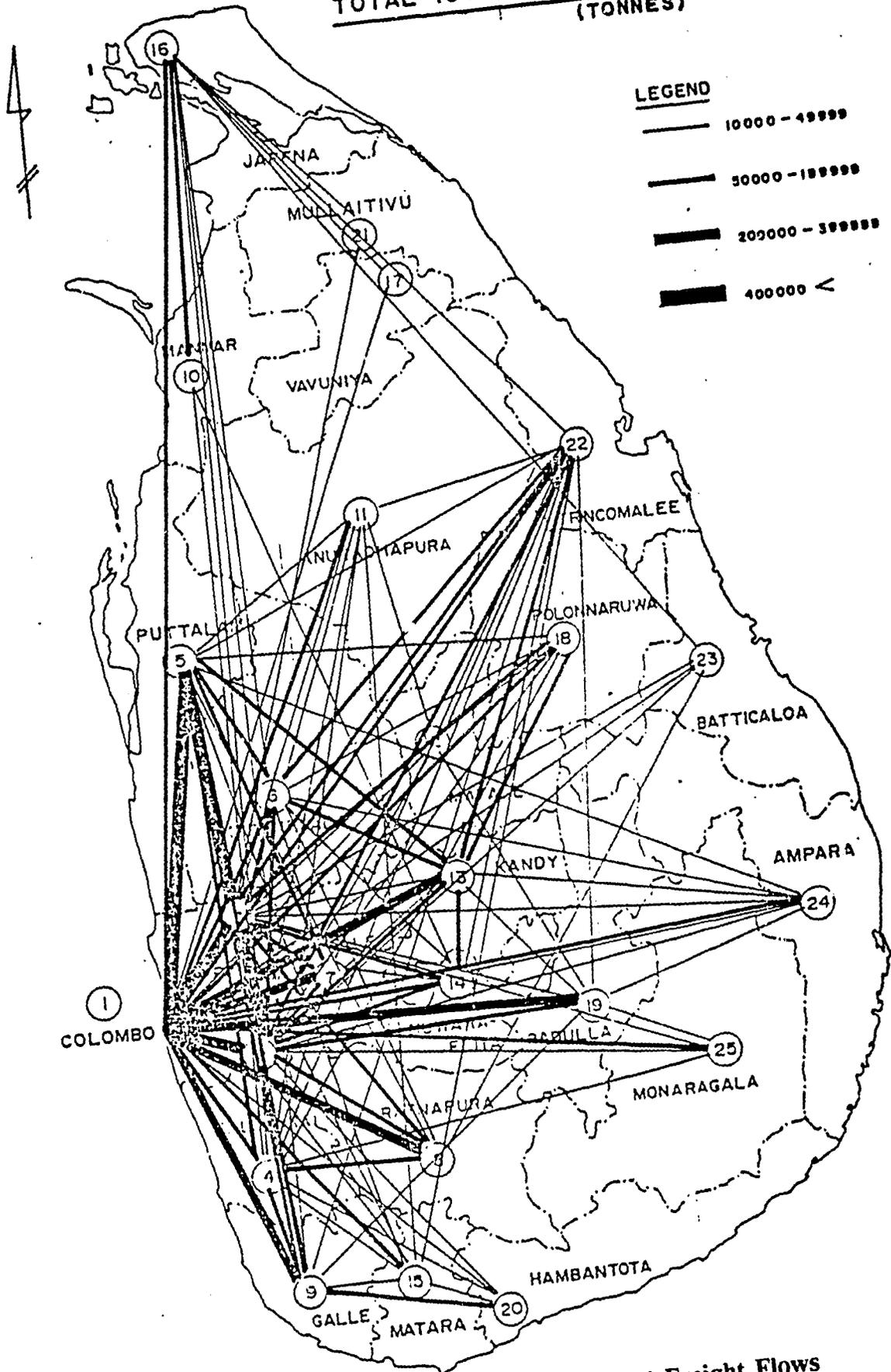


Figure 5: Total Interzonal Freight Flows

Councils Act of 1987; and it is reflected in Sinhala opposition to the Provincial Councils idea in the current political campaigns. Empowerment along ethnic lines, and redistribution from core to periphery, may be the price that Sri Lanka has to pay for the internal security without which future growth is impossible. But such empowerment itself runs counter to Sinhala nationalism in the south.

Many of the sources of the sharpening of polarization are to be found in the economic policies and development strategies that preceded the introduction of a more open economic policy in 1977, and center on the question of which group has access to resources and power (De Silva, 1986). Typically, calls for decentralized development also are calls for subgroup control of explicit slices of the national pie. Successive decentralization initiatives have occurred largely to mollify Tamil alienation, but the "crux of the problem is that regional autonomy, not merely regional loyalties with a potential for development into separation, is viewed as a threat to national integrity by the Sinhala majority ... the Sinhala political establishment exalts the modern state and treats national identity as co-extensive with it, and has generally been unwilling to convey legitimacy to regional loyalties -- or does so with great reluctance" (De Silva, 1986). Thus, the 1987 solution has fired the opposition by Sinhalese youth in the south to Tamil gains, and has made the unemployed, in particular, fair game for recruitment by the Marxist J.V.P.

Equity-orientation of the State-Regulated Economic System

Achieving real development is all the more difficult because of a feature that Sri Lanka shares with other Asian states, the notion of the state as family, in which the equity of its members has to be assured. With modernization, the older structure of extended families which provided for the welfare of their members is breaking down. But a feature of Asian cultural development has been the projection of the family concept upward to the level of the state. The state and its institutions are expected to take care of the welfare of the citizenry. There is deep-seated distrust of private (individual) enterprise, and pressures for the state to assume control and to structure its activities to assure equity, apart from, and extending far more broadly than the demands of particular ethnic groups for parity of political power and access to resources.

Accordingly, the independent Sri Lanka quickly developed a state-regulated economic system. Industrial and commercial corporations were established and others were nationalized, culminating in nationalization of the plantations. The private sector, restricted to light industrial and commercial enterprises, came under strict state control and a system of quotas, permits and licenses, a product of the policy of import substitution, made state patronage essential for private sector ventures.

Development policy was directed to:

- (i) making large capital-intensive investments to expand the agricultural frontier, to support food production and reorient agriculture away from tree crops, to achieve rice self-sufficiency to shield the country's consumption from shifts in the terms of trade, and to reduce population pressures in the more densely-settled southern and western regions by providing settlement opportunities to landless farmers;

- (ii) promoting industrial growth by establishing public enterprises and protecting the domestic market against foreign competition;
- (iii) increasing the role of government in the economy by creating public enterprises, making extensive use of price controls, private investment licensing and restrictions on trade, both external and domestic.

Little employment was generated by these efforts. Despite only a modest growth in the labor supply, a significant unemployment problem emerged. As a result the government embarked upon massive transfers to households to maintain their living standards, and used the public sector as the employer of last resort (World Bank, 1988). The use of public employment favored Sinhala youth because of the way in which patronage politics operated (Gunasinghe, 1984). State patronage became the domain of politicians of the ruling party; their favors were largely dispensed to an extended "family" of Sinhala supporters. One positive consequence was the emergence of a group of mid-level Sinhala entrepreneurs behind protectionist barriers. But at the same time, the public sector came under the control of the bureaucracy, and political patronage became the basis of recruitment to that bureaucracy, a system which favored Sinhala youth and built patron-client relationships with local politicians. Public sector expansion was used to create job opportunities mainly for the Sinhala people. Tamil youth in the north and east enjoyed no such advantages: their politicians represented regional ethnic parties and enjoyed no power at the center. The consequences included alienation, violent protest, and the demands for both greater regional equity and regional autonomy for the Tamil periphery.

In 1977, a party came to power committed to liberalization and the reduction of the role of the state. By any account, the "flagship" of Sri Lanka's development effort at this time was a major regional program, the multipurpose Mahaweli river basin project designed to:

- extend the agricultural frontier into the dry zone, providing irrigation for 340,000 acres of new land;
- increase agricultural production, particularly rice, and enabling double cropping to take place on another 600,000 acres of land;
- alleviate power shortages by providing 500 MW of hydro power;
- create short and long-term job opportunities and thereby help reduce unemployment;
- resettle landless farmers from the more crowded regions of the south and west.

Formulated in the period 1958-61, implementation began in 1970 and was accelerated as part of the 1977 liberalization effort. When complete, the project could cover fully a quarter of the land area of the country.

In part, acceleration of the project must be seen in terms of the country's ethnic polarization, as compensation to the Sinhala population, in terms of employment and

production, for the considerable costs to them of the economic reforms. The 1977 open economic policy involved abolition of quotas, permits and licenses, as well as of public sector monopolies, and reduction of the domain of political patronage (Gunasinghe, 1984). Compensation came in a major program that paid tribute to the ancient civilization of Sri Lanka with its magnificent irrigation works. "Every Sri Lankan knows of the philosophy of the ancient monarchs, most clearly expressed by the 12th century King Parakramabahu I who said, "Let not one drop of water reach the sea without first serving man". Large-scale irrigation works were built as early as the 1st century A.D. High standards of irrigation technology enabled the monarchs to extend waterworks throughout the dry zone by the 6th century A.D. So thorough was their work that many of those systems are still in use today." (World Bank, 1988). Donors were attracted by the prospect of financing capital- and engineering-intensive projects and the opportunity of demonstrating support to the liberal economic policies. The irrigation expenditures have absorbed one-third of public capital expenditures 1978-85, and have amounted to 4 percent of GDP in the last decade (World Bank, 1988).

Yet this massive effort served to increase rather than diminish ethnic conflict. Not only is Mahaweli perceived as a symbol of Sinhala nationalism. It also has been seen as a major device for extending Sinhalese settlement into the Tamil periphery. It became one more element in the long-standing pattern of ethnic conflict that escalated into open warfare after 1983 (De Silva, 1986), and when new rounds of implementation occurred, they included explicit ethnic quotas tied to predominantly Sinhala and predominantly Tamil districts (USAID, 1987).

The price of the settlement of this new round of hostilities was a new regional program of a different kind. An outcome of the Peace Accord of 29 July, 1987, was the 13th Amendment to the Constitution establishing a new tier of Provincial Government by merging the 25 Districts into 8 new provinces. The accompanying Provincial Councils Act of 1987 was a major attempt to decentralize the development program and to increase regional autonomy.

According to the provisions of this act, the central government would retain the responsibility for taxation, for macro-economic planning, for the formulation of national policies and the setting of standards. Approximately half of the budget would be retained by the center, to be used for pensions, interest on the public debt, transfers to public corporations and, for example the food stamp program, to the poor.

The Councils of the 8 provinces would be responsible for all irrigation works, all land development projects, for food supply and distribution, and for the regulation of transport services. Their responsibilities would extend to formulation of operational programs and budgets (40 percent of the central budget would be transfers to the provinces), and to the provision of technical guidance to, and monitoring and evaluating implementation by a third tier of 258 *Pradeshiya Sabha*, the governmental units responsible for project implementation and delivery of services.

Several elements are present in this regionalized development scheme: empowerment of more autonomous provincial units, but also devolution of development administration and of the responsibility to develop better-coordinated programs of service delivery funded by disbursement of central government funds to the provinces according to a formula based

upon population, per capita income, the need to reduce social and economic disparities within regions and differences in per capita incomes among regions. The redistributive intent is evident, as it should be, given that the source of Act is core-periphery Sinhala-Tamil rivalry: a single new province was created embracing the Tamil-dominated northern and eastern periphery. But it in turn has provoked Sinhala opposition to the solution -- perceived as a reward for violence -- and it perhaps has made Sinhala youth believe that violence is the means for achieving their ends, too.

3. THE MANY FLAVORS OF REGIONAL DEVELOPMENT

Radically different kinds of regional initiatives thus have played a central role at critical stages of the Sri Lankan development process. Might new regional development initiatives become equally central to the future path of the country's growth? At this juncture, it will be wise to step back and clarify terms and approaches. Regional development, like ice cream, comes with many flavors. A little clarification now will pay off handsomely later in lending some order to the discussion of USAID/Sri Lanka's options.

Regional Development as Grand Design or Spatial Plan

Many regional planners view their task as one of grand design, to be realized by some omnipotent authority exactly as the architect converts his plans to completed physical structures. To such planners, the measure of worth is the artfulness of the design.

A version of such design-based approaches is embedded in structure plans for the spatial arrangement of land uses and the form of settlements. Such physical planning has long been instituted in Sri Lanka at the local level, following the British model of Town and Country Planning, and structure plans have been developed for each municipality. Implementation is as good as the local regulatory mechanisms that are in place, and the pliability of their enforcement to special interests.

As part of the Colombo Master Plan Project of 1978, the United Nations attempted to develop similar plans at the regional and national scales. A Regional Structure Plan was proposed for the Colombo Metropolitan Region, together with a National Spatial Strategy. Typical of the genre, the Colombo Structure Plan involved the presentation of several growth alternatives -- "sprawl," "concentration," and "growth center" -- together with the usually-recommended variant of "modified concentration with growth centers." The National Spatial Strategy included a Colombo-Trincomalee "growth corridor" incorporating the Accelerated Mahaweli Project area, and a series of urban development alternatives -- "concentration" (Colombo-centered development), "counter-magnet" (focus on alternative growth in Trincomalee), "regional growth centers" (building up Jaffna, Kandy and Galle as alternatives to Colombo), and "growth corridors" (development especially along the Colombo-Anuradhapura, Colombo-Kandy, and Colombo-Galle axes).

Like most similar plans made elsewhere in the world, none of these paper designs for alternative spatial configurations of nodes and hierarchies, networks and corridors reached the stage of serious appraisal and implementation. Only when backed by massive public investment programs of the scale of the Mahaweli Ganga project is there any likelihood of success. Among the few examples of concerted efforts to implement schemes of this kind have been London's New Towns program, and Sweden's strategic plan for the Stockholm

region. Since there is negligible likelihood that similar-scale initiatives are likely or feasible in Sri Lanka, this type of grand-design regional development approach can safely be ignored in what follows. This is not to say that strategic thinking is unimportant -- indeed, it is critical to the identification and realization of new opportunities for development. What is not needed is heavy investment of time in grand designs that have no prospect of implementation.

Regional Development as Economic Planning

Increasing numbers of regional planners view regional development as an exercise in economic planning, directed not simply to explicit growth (efficiency) objectives, but more typically to some mix of efficiency, equity and externality goals. In Sri Lanka, it has generally been believed that sectoral planning should be directed to growth objectives, however, whereas the purpose of regional development is to redistribute the fruits of growth to achieve greater balance. Thus, the latest Industrial Policy Statement (Ministry of Finance and Planning, 1987), focuses on two principal objectives:

- (a) To supply employment and income opportunities to the growing population.
- (b) To reduce the country's dependence on a narrow range of agricultural exports.

But among the secondary objectives is included the following:

- (c) To achieve more balanced regional growth, *ceteris paribus* by industrial dispersal throughout the country.

Likewise, the Public Investment Program for 1988-1992 (National Planning Division, Ministry of Finance, 1988), includes several equity and environmental components:

- (a) Improving environmental sanitation as a means of improving the standard of living of the poorest segments of the population.
- (b) Under the heading "Regional Development," via the Integrated Rural Development Program, increasing the income and living standards of a large portion of the country's rural population, and strengthening the planning and implementation capability of both public and private sector development institutions at the district level and below.
- (c) "Giving greater emphasis to the environmental impact of all development activities" and "mobilizing community support for environmental conservation in the regions."

To promote **growth**, untapped or underutilized resources may be brought into the productive mainstream, or new opportunities may be created via innovation. Such growth-

oriented policies are usually sectoral in design and in execution, but they are also regional because investments must be made somewhere, and because the regions in which they are placed are part of the system of regions that is the nation. Thus the 1977 agricultural policy decision to shift the pattern of public expenditures from welfare-oriented measures such as food subsidies to both current and capital expenditures to increase the productive capacity of the agricultural sector was accompanied by a jump in the share of government expenditures going to agriculture from 7-10 percent to 22 percent, largely accounted for by the initiation of the massive Accelerated Mahaweli Ganga Development Project, a multipurpose river basin regional development project of the most classic kind. To produce electricity, to create jobs and to achieve rice self-sufficiency, extensive un-/or under-utilized sections of the dry zone were to be brought into irrigated agricultural production. Secondary regional impacts were to include reduction of population pressures in the south and west by relocating landless peasants and -- unintended -- increasing regional tensions because the project was seen as promoting Sinhalese "colonization" of the Tamil periphery.

The Mahaweli scheme was preceded by other resource-opening projects. In the 1930s, the British colonial administration developed wet-zone infrastructure, especially roads, so as to improve the plantation sector and promoted dry-zone peasant colonization settlements. There also were earlier integrated river-basin developments: Gal-Oya in the 1950s and Uda-Walawe in the 1960s.

Other significant efforts to bring underutilized resources into the economic mainstream include the development of Tourist Resort Regions, although the preferential development of the south vs. superior coastal resources in the east and north is alleged to have its root in Sinhala domination of the investment decision.

The establishment of Investment Promotion (Free Trade) Zones by the Greater Colombo Economic Commission is an example of opportunities created by innovative ideas. The zones provided the stimulus to growth of the textile industry (which has accounted for 50 percent of Sri Lanka's total export growth since 1977). Garment industry expansion has been the most powerful regional development force in the Greater Colombo region and is based not on any natural advantage that the region possesses, but a created comparative advantage. The greatest concentration of new plants is in the Katunayake Investment Promotion Zone adjacent to the International Airport (70 out of a total of 91 enterprises approved by GCEC are located there -- half of all the factories approved produce ready-made garments).

Growth can also be induced by getting the price signals right. When the rice ration was replaced by food stamps in 1979, paddy production was opened up to market forces. A sharp increase in real at-farm prices elicited a substantial domestic production response (Thorbecke and Svejnar 1987). More than 90 percent of the doubling of rice output in the past decade has come from increased production in existing agricultural areas rather than from new land brought on line by the Mahaweli projects. On the other hand, price controls imposed on food stuffs in the interest of urban consumers have the opposite effect, reducing incentives to farmers and resulting in shortages.

The second economic planning objective, **equity**, may be either people or place focussed. People-directed redistribution has taken many forms in Sri Lanka ranging from rice allowances to food stamps, and was at center stage in the recent Presidential campaign in UNP Presidential Candidate Ranasinghe Premadasa's proposal (almost certainly likely to

fire inflation) to provide Rs.2,500 to each family on food stamps, part to be used for consumption and part to be placed in a savings account each month until the accumulation is sufficient for groups of the poor to cooperate in developing small-scale enterprise that might ultimately make them economically independent. Place-directed redistribution is implied by the inclusion among the disbursement criteria for central government funds under the provisions of the Provincial Councils Act of 1987 of differences in per capita incomes between regions and the need to reduce social and economic disparities within regions. At the local level, the Integrated Rural Development Program was directed to places not benefitting from the Mahaweli Program expenditures, again in the interest of "balancing" opportunities for those who would otherwise have been left out.

Most economists agree that if equity goals are added to efficiency objectives, the most effective method is by redistributing tax revenues to the **people** in need rather than to places, however, Regional redistribution can cause significant efficiency losses unless major resources are brought into the economic mainstream; resources that are redistributed to places may not reach those people who are most in need. Usually, the most that can be hoped for by regional redistribution schemes is "Pareto optimization" -- that some will become better off while none become worse off.

To the extent that economic plans include concern for **externalities**, they are of two kinds, positive and negative. Externality policies may be directed to the achievement of agglomeration (localization and urbanization) economies, or they may seek to prevent or compensate for the burdens that activities of some impose on the efficiency or welfare of others. The former idea is embodied, in part, in the notion of coordination -- the idea of grouping of investment projects to produce a joint outcome that is greater than would be achieved if each project were to be implemented independently of the others. Under this rubric fall the coordination activities of the Divisional Development Councils established in 1971 (Wijeweera, 1988) as well as the Integrated Rural Development Program.

The Divisional Development Councils were set up as a crash employment program, with the employment objectives to be achieved via coordinated cooperative projects involving subsidiary food crops, horticulture, livestock, fisheries, and floriculture; small-scale industry; development to minor irrigation works and improvement of rural roads; and rural housing, public buildings, civic amenities etc. At the base were cooperative societies, providing self management under the guidance of a District Development Assistant. Within a short time a large number of projects was initiated, but the whole effort soon ran into problems of shortfalls both technical and managerial expertise.

The Integrated Rural Development Program is the logical successor to the DDC effort, also attempting to increase the employment potential of the public investment program through rationalization of existing investments. Equity objectives also have been achieved: targeted populations who have benefitted in the past have included small holder peasant farmers, landless households, and unemployed youth. Externality considerations are evident in the fact that almost half of the IRD investment has gone towards improvement of economic and social infrastructure rather than direct economic production.

In the words of the 1988-1992 Public Investment Programme:

With the establishment of Provincial Councils, the regional development mechanism could be further strengthened by integrating all resources earmarked for regional and rural development from various sources. At present, every district gets allocations of resources from IRD projects, the decentralized budget and other departmental sources for various regional and rural development activities. Once these resources are pooled, a more meaningful programme could be implemented to develop the entire region. Under the Provincial Councils system, the administrative responsibility for regional planning and development will be in the hands of the Provincial Council under the Chairmanship of the Chief Minister, while the planning staff drawn from the existing district planning offices would serve as the technical arm of the Provincial Council.

With respect to negative externalities, the Public Investment Statement says:

The Government has already decided to give greater emphasis to the environmental impact of all development activities. Accordingly, the Government has made an Environmental Impact Assessment of all development projects mandatory from 1.1.84. For an effective implementation of this decision, the Central Environmental Authority (CEA) has prepared the necessary Guidelines on Environmental Assessment Procedures and distributed them among all the project approving agencies. The CEA continuously monitors the implementation of these procedures and, from time to time, conducts seminars and workshops to better educate and train the officials implementing them. As a result, no development project, whether in the public or in the private sector, is now approved without undergoing an environmental impact assessment. The District Environmental Agencies organized by the CEA to upgrade public awareness of environmental protection and management have also started developing programmes to mobilize community support for environmental conservation in the regions. The first such proposal for environmental conservation in the Moneragala District has been submitted to the Government and approved by it. The basic objective of this project is to mobilize communities and agencies to protect the environment by taking steps to control and reduce damage to forests and wildlife. The CEA is reaching the final stages of completing the National Conservation Strategy for Sri Lanka. The basic objectives of this Strategy are to (a) examine the present status of natural resources in the country in relation to their conservation and utilization; (b) identify conservation objectives emphasizing the preservation of natural ecosystems, endangered species and life support systems; (c) examine the causes and intensity of environmental degradation and recommend urgent remedial measures; and (d) identify obstacles to conservation and recommend measures to overcome them.

Regional Development as Governance and as Empowerment

The third "flavor" of regional development planning centers on questions of governance. At the cynical level, the question is one of how the national "pie" is sliced, and by whom. Regional "development" programs have often simply been devices whereby politicians are able to bring back spoils to their constituencies or to create jobs for political supporters. "Regional development" is also the battle-cry of those excluded from the majority spoils systems, as a means to guarantee minority interests their "fair share" of employment, incomes, and growth. At a more cerebral level, the concern is for effective governance: What is the appropriate mix of centralization and decentralization of powers? Should uniform national policies be applied across all places, or should there be scope for regional differences? Can community mobilization increase the efficiency and effectiveness of programs? Somewhere between the cynical and cerebral lie questions of empowerment: Who should decide? Who should implement? Whose objectives should be sought? Whose values should be the measure of worth of regional plans?

Sri Lanka has seen much experimentation in governance and administration; indeed, each successive national government has restructured local government and the system of development administration. There has been:

- (a) vertical departmentalism extending and radiating from center to the periphery;
- (b) district co-ordination through administrators by deconcentration;
- (c) politico-administrative measures through District Political Authorities, District Ministers and District Development Councils;
- (d) shifts in emphasis on the roles and functions of Local Government Agencies and peoples' organizations at grassroot levels. These experiments have included both "top down" mechanisms for extending central power downward (District Ministers) and "bottom up" political devolution (District Development Councils), as well as, for example, the shift from direct service provision by local government for the National Housing Development Agency to empowerment of the people to develop housing for themselves.

Impelled by intensifying ethnic conflict, the full panoply of concern for governance and regional authority for development came to center stage with the passage of the Provincial Councils Act of 1987, with its three-level hierarchy of development responsibilities and the associated empowerment of the provinces. Prior to the passage of this act, Sri Lankan development planning clearly had taken different forms at different levels of government (Mendis, 1986):

- (a) At the **national** level the focus had been on sectoral analysis and prioritization of public sector projects to facilitate resource allocation.
- (b) At the 25 - **district** level, there had been a multiplicity of area-based development programs undertaken by district-level representatives of central government agencies, and lacking conscious linkage with each other.
- (c) At the 258 - **divisional** level, physical planning had long been instituted for controlling the spatial arrangement of land uses and the design of the spatial form of settlements, and there had been numerous experiments in coordinated development planning and service delivery.

The Provincial Councils Act provided for a radical shift in responsibilities:

- (a) the **center**, responsibility for macro-economic planning, taxation, defense, foreign affairs, etc.
- (b) In the 8 **provinces** (replacing the 25 District Development Councils), responsibility for planning all land development projects, for irrigation, for food supply, and for providing technical guidance to implementation by local governments.

- (c) At the **local** level, transformation of the divisions responsible for local service delivery in rural areas by 258 *Pradeshiya Sabhas*, with broader responsibilities for development decision-making, revenue mobilization, and service delivery.

Overarching this structure, there appears to be a broad consensus about the mix of the growth, equity and environmental objectives to be pursued (Yapa, 1988):

1. To raise the quality of life of the population and to reduce social and economic inequalities.
2. To improve the infrastructure of the "space economy" in the areas of transportation and communication.
3. To provide a rational basis for the utilization of resources within the framework of the new provincial authorities.
4. To facilitate effective devolution of power in the new provincial administrative framework.
5. To counter political centralization by fostering popular participation in decision making at the regional and local levels.
6. To meet the social and political aspirations and demands of territorially-based groups.
7. To provide a regional basis for the conservation of natural resources and protection of the bio-physical foundation of the economic system.

4. IS THERE A ROLE IN SRI LANKAN REGIONAL DEVELOPMENT FOR USAID?

Several distinct needs and opportunities may be culled from the foregoing, if these ambitious goals are to be achieved:

1. Assuming that some degree of regional autonomy and regional redistribution of the national budget is the price that must be paid for the reestablishment of the stability on which any future growth depends, ways must be found to ensure that provincial-level development planning be efficiency-oriented and consistent with the nation's macro-economic needs and objectives.
2. Given the smallness of scale of Sri Lanka, there is an opportunity to convert core-periphery differentials into a basis for interdependent regional development via improvements in transport and communications that not only draw the country's regions and resources together more closely, but also link them

more tightly into the external world of specialization and trade. Such an interdependence strategy may be even more critical, since much development planning is to be devolved to the 8 provinces, for it would help sharpen the comparative advantages in which their growth is based.

3. Following the example of the textile industry and the pattern of other Asian development states, there is the opportunity to build upon the quality of Sri Lanka's human resource by promoting the introduction and expansion of new industrial sectors as legs on which future growth of exports can stand. While incentives may be necessary to induce innovation, the key to competitiveness is the efficiency provided by private-sector leadership. Public enterprise is the anathema of the inventiveness in which the creation of new export bases depends. On the other hand, appropriate incentives and infrastructure provision by the government can help guide the industrial location choice in directions that are in keeping with other, regional, objectives.
4. Consistent with (2) above, there is both the need and the opportunity to put the tourist industry back on an effective growth path by opening the full array of the country's coastal and historic cultural resources to development. Again, political stability and ease of access are the keys.
5. Recognizing that much of the investment in expansion of the agricultural frontier has been devoted to paddy production by subsistence farmers, there is an opportunity to increase rural incomes and therefore the size of the domestic market by shifting from paddy to higher-value crops, and by diversifying cropping patterns. This opportunity is recognized in current USAID activities in support of the Mahaweli Program (USAID, 1987). The possibility to convert new crops into viable exports should never be far from center stage in the attempt to realize the considerable development potentials of the Mahaweli resource that is itself being created by a massive public investment program. Whether a spatial strategy of building growth and market centers in the Mahaweli will contribute to this objective is a question that remains to be investigated.
6. Returning to point (1), there is also the ever-present need to increase governmental efficiency and responsiveness as devolution of power takes place, and as yet more development activities and service delivery are assigned to the Pradeshiya Sabhas. But fundamental questions arise: How will the policy analysis and planning functions at the provincial level be constituted? Do the requisite staffing capabilities exist? Where will formal authority for personnel reside? At the level of the Pradeshiya Sabhas, how is an integrated program of

implementation to be organized and staffed. Again, where will formal authority for personnel reside? What of staffing capabilities? How will safeguards be built in to ensure that the new decentralized system of planning does not lead to further enlargement, rather than reduction, in the size of the public sector?

The several primary areas for donor assistance identified by the World Bank in its 1988 *Sri Lanka Country Report* as vital if the current program of economic reforms is to succeed are consistent with the needs and opportunities just identified:

1. In manufacturing, to support development of the private sector.
2. In transportation, to bring about a significant reduction in transport costs.
3. In agriculture, to create a new agricultural credit system as a precondition for diversification of cropping patterns and the shift from paddy to higher-value crops.
4. In support of the devolution of power to the Provinces, as part of the attempt to reorganize the central government, to reduce public employment, and increase efficiency and effectiveness of the public sector.

Similar ideas are expressed in the draft 1988 USAID *Country Development Strategy Statement*, written against a thematic backdrop of the preference for reliance on market forces and on the private sector to produce efficiency in development, the promotion of local organizations, and the principle of maximum cost recovery from beneficiaries. The question is whether the need to increase agricultural incomes and improve rural living standards, the need to increase the pace of formation and growth of privately-owned small-scale enterprises and the competitiveness of Sri Lankan industry generally in domestic and international markets, and the need to devolve decision making, translate into a regional development strategy for USAID.

The answer is affirmative: There is indeed such a translation, but to make it several knowledge gaps must be filled:

1. While access and communication constraints are common knowledge, there has been no real assessment of what they are and what it will take to overcome them. A random list of questions includes the following --

What are the limitations in internal communications (telephone, fax, computer networks) and what would it take to overcome them? What about impediments to movement of people and goods, and other forms of resource mobility?

How does the current urban system function in providing appropriate infrastructures for industrial development and

marketing institutions/centers for agriculture? Are there infrastructure deficiencies in the existing urban system? What are the service-center service-area relationships among urban centers and between urban centers and rural areas? Do gaps in the system need to be filled by new growth centers that might play a strategic role in transforming peasant farming into diversified specialty agriculture? What kinds of activities and institutions (e.g. in banking and credit) are part of that role?

Has core-region "centering" on Colombo resulted in connectivity problems for regions that might interact if radial routing did not force traffic through the congested center?

Does the exceptional haven at Trincomalee offer an opportunity to complement Colombo's South Asian transshipment facilities with an equally-effective alternative?

2. Little research has been done on the opportunities that exist to move Sri Lanka's manufacturing base beyond textiles, whether in the Free Trade Zones or elsewhere.

Is the textile example valid, importing the raw materials, applying Sri Lankan labor, and exporting fabricated products?

Are there examples of industries that might be stimulated and that would provide additional rounds of opportunity for building up Sri Lankan components-production capability?

What are the opportunities and constraints to extending the Free Trade Zone concept to areas beyond the authority of the Greater Colombo Economic Commission?

3. What is the full array of tourist potentials, and what would it take to develop them? For example, what types of access and communications are required? Is there need for a second international airport, perhaps using the existing facility at Hinguratgoda as the alternative?

4. To increase rural incomes and realize the full potentials of the Mahaweli resource such questions arise as --

What array of cropping diversification/alternatives might be encouraged in current peasant farming zones?

To what extent are those alternatives limited by lack of effective marketing mechanisms and rural-urban connections?

To what extent would urban development provide supplementary off-farm employment and earnings opportunities

for members of peasant households? What functions not now there need to be developed in the towns?

5. There needs to be a very careful appraisal of what will be required to ensure that each of the 8 provinces to which regional planning is to be devolved and each of the 258 *Pradeshiya Sabhas* that have the implementation responsibility are able to function effectively --

Can the staffing needs be met?

How will budgeting and evaluation proceed?

What will be the relationship between national-scope sectoral initiatives that have major regional impacts, and the planning functions of the affected regions?

Will major authorities such as Mahaweli remain independent, insulated from the new regional planning apparatus and with effective control remaining in Colombo, or will they too become part of the decentralized scheme?

There is a clear opportunity for USAID to initiate important regional research on urban-rural and on resource development questions, and to make a significant contribution to the path that Sri Lankan development might take.

Of particular importance must be an analysis of the likely path of Sri Lankan urban growth, and the employment and infrastructure that will be needed to support it. At existing rates of growth and emigration, the Sri Lankan population can be expected to double, from 16 to 32 millions, in approximately 50 years. If three quarters of the growth takes place in urban areas, not an unreasonable assumption, the urban population will grow from 4 to 16 million and the proportion of the population living in urban areas from 25 to 50 per cent. This is still a very low rate of urbanization for a developing nation experiencing significant industrial growth, as Sri Lanka must, but it has substantial employment-generation and infrastructure-provision implications.

At an average of 5 persons per household, 12 million new urbanites mean 2.4 million new households -- an average of 48,000 new housing units per year, and at a female labor force participation rate of 35 per cent, 65,000 new jobs per year. Assuming that two-thirds of these jobs will be in "nonbasic" activities servicing the urban population itself, the growth still translates into the need for 22,000 new "basic" jobs in production for national and for export markets each year.

How can this scale of employment growth be assured? Will it take the form of increasingly congested metropolitan expansion within the core region, or can it be accommodated by the expansion of several growth centers dispersed at strategic locations throughout the island? Could such growth centers also serve as the stimulus to new rounds of rural development? Sri Lanka has had a long tradition of strong urban centers in each of its subregions. What policies and infrastructure provision will ensure that what occurs is interdependent multinodal development that benefits all sections of the island, rather than

concentrated development that increases core-periphery polarization? These are but a few of the urban-regional development questions that must be part of the strategy agenda that lies ahead.

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