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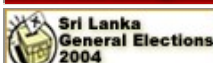
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Business

Col. Olcott recognized our educational needs

The indigenous people of Sri Lanka benefited much from the life of Colonel Henry Steele Olcott, whose life and mission is commemorated today (November 12). He recognized the need to establish institutions that could impart knowledge and provide learning opportunities in English to those who were otherwise not able to gain admission to an English School and enter the mainstream of employment under the Colonial British rulers, said Chairman, Ceylon Chamber of Commerce, Deva Rodrigo. He was delivering the Olcott Memorial Oration at BMICH recently.

Mr. Rodrigo recalled that Colonel Olcott was personally involved in the selection of Principals and nurturing the school that were established on November 1, 1886 at No. 61 Maliban Street in Pettah. The school was named 'The Buddhist English Academy' to reflect the objectives of the founders in my view, the use of the word Buddhist did not mean that the school was exclusively for Buddhists. 'I say this because Ananda had been from its early days a sanctuary for Sinhalese who were mostly Buddhists as well as Tamils and Muslims. They all came to Ananda to learn in English and advance their careers. Countless numbers, many hundreds of thousands have benefited from the schools established by Colonel Olcott in the 19th Century. As an Anandian, I am indebted to the pioneering efforts of this American Visionary', he said.

Expressing his gratitude, Mr. Rodrigo said 'I am ever grateful, as almost all of you are, to the founders of Ananda College for creating a place of excellence for learning. It is a place where those who seek to study and enter university could do exceedingly well and those who decide to enjoy other aspects of student life could also do well in society and be equally good citizens. It is a place where one learns the best of occidental cultures and oriental cultures, and to interact with pupils coming from remote villages and those from urban areas often from somewhat more affluent families.'

I had the privilege of attending last month a celebration at Ananda to recognize 66 students who secured 'EBA' grade passes in all three GCE Advanced Level subjects. That was the highest by any school in Sri Lanka. Last year Ananda came second. But now we are again at the top. That is the best tribute we can pay to Colonel Olcott.

Foremost among the founders of Ananda is Colonel Henry Steele Olcott, an American citizen who travelled to Sri Lanka in 1880 after studying the proceedings of the theological debate on Christianity and Buddhism, famously known as the Panadura Vada of 1878.

The organizers of the Olcott Memorial Oration have asked me to speak on The Role of the Private Sector. This topic has been selected either to provide me an opportunity as the 85th Chairman of the 165 year old Ceylon Chamber of Commerce to address you and be recognized or to deal with a theme that has assumed such importance in improving the life of the people of Sri Lanka, which we know was the objective of Colonel Olcott when he set sail from the United States and then established Ananda as the Buddhist English Academy.

Today I speak as an Anandian. What I say will therefore not necessarily reflect the views of the Ceylon Chamber of Commerce or the positions we take as a Chamber of Commerce.

What is the Private Sector?

At the OPA Annual Sessions this year, a former Chairman of the Chamber Mr. C P de Silva, whose analytical mind I have always admired and respected, defined the Private Sector as

every thing other than the Public Sector. That means, he said, the whole gamut from framers and boutique keepers to multinationals.

In our work we divide the Private Sector into two segments: The formal Private Sector comprising business organizations, their trade associations or Chambers of Commerce, and the informal Private Sector comprising the farmers, boutique keepers and others engaged in similar occupations.

The formal Private Sector contributes 35% of Gross Domestic Product (GDP) which is a measure of economic activity in the country. The informal Private Sector contributes 45% of the GDP.

What role has the formal private sector played so far ?

We can divide the past 165 years, over which a record of the private sector role and contribution is available in the archives of the Ceylon Chamber of Commerce, to three periods.

1865 to 1956 : When the private Sector controlled much of the economy (91 years)but the Government provided all the infrastructure needs and therefore owned and operated the Railways, Ports, Telecommunications, Roads, Water & Sewerage and Electricity generation, transmission and distribution.

1956 to 1977 : When the socialist policies followed shifted the major (21 years) economic activity from the Private Sector to the public sector through nationalizations and by setting up state owned large commercial enterprises such as the Steel Corporation, Ceramics Corporation, State Trading Corporation and the Sri Lanka Insurance Corporation.

1977 to date : Privatisation of most of the State Owned Enterprises (27 years) including Telecom (which was an enterprise prior to 1956) and the growth of the private sector to a dominant position, signifies this period.

Under the socialist policies the role of the Private Sector dwindled and those who were organized in Chambers of Commerce or Trade Associations concentrated on matters directly affecting their business organizations or industry sectors. They therefore had somewhat narrow confines to operate as a group. They took up matters relating to taxation, exchange control, business law, price control and trade issues. At that time it would have been inconceivable for a Chamber of Commerce to deal with Education, Law and Order or a potential health issue such as HIV/AIDS.

Much changed in the post 1977 era of liberal economic policies. Over the years Private Sector activity expanded. Privatization and outsourcing contracted the Public Sector role in the economy.

In a free market the role of the government should be to afford the Private Sector with the enabling conditions for the economic activity by providing -

`EF a proper legal system to support property rights

`EF a monetary system to stimulate the economy and avoid an economic crisis

`EF law and order

`EF regulatory structures that operate free from political interference

`EF services such as health and education and infrastructure facilities, required by the people but not provided by the Private Sector

The Private Sector has so far grown its contribution to the economy and in terms of the Gross Domestic Product (GDP) now accounts for, as stated earlier, 80% of that 35% is the contribution of the formal Private Sector.

Privatisation

The policy on privatizations define to a large extent the roles of the Private Sector and the Public Sector. \ Experience has proved that the commercial enterprises operated by the state are less efficient than those operated by the Private Sector. A good example is Sri Lanka Telecom.

The former British Prime Minister Margaret Thatcher started privatizing the State Owned Enterprises 25 years ago. Many of those were enormous successes but there have been a few exceptions. The British Rail Track is a glaring failure. The rail track owns and maintains railway tracks across Britain. Earlier this month The House of Commons Transport Committee concluded that the British Government should seriously consider re-nationalising rail services.

In Sri Lanka, the privatisation of the Government Owned Business Undertaking (GOBU) of the Colombo Commercial Company the Textile Mills of Veyangoda and Pugoda and the cluster bus companies have been major failures. Overall, in the hands of the Private Sector commercial enterprises have operated more efficiently and provided better services or goods at costs commensurate with quality. Privatisations also free the Government from its obligation to fund substantial losses of poorly run State Owned Enterprises (SOE`EDs).

Another forceful argument in favour of privatization is the risk of political interference in the management of SOE. Many politicians have opposed privatization because they lose with it the ability to misuse their resources such as vehicles, give employment to people of their choice and employ people way beyond the requirement. A good case in point was the Port Authority that gave employment several years ago to over 5,000 additional hands from the electorate of the Minister in charge.

The present Government announced in its party manifesto that as a policy the strategic enterprises will not be privatized. Consequently 12 strategic enterprises have been brought under an Authority `F1 SEMA which is chaired by a former private sector leader with a proven track record. Many of its board members are captains of industry. SEMA is to be operated under the Singapore Government controlled Tamasek Holdings model. Tamasek is the holding company of several successful mega enterprises such as Singapore Airlines and Singapore Telecom. The opponents of this policy argue that Singapore is a model state and what has proved successful in that country may not succeed in Sri Lanka. There is also doubt cast on what will happen if the political leadership that appoints the SEMA directors and chairman changes hands, as could be expected in a democracy, and the wrong people end up on SEMA `F1 a situation had happened far too often in the past.

It is my submission that Privatisation is on balance, the better way forward. But before privatizing a state owned monopoly, the sector should be liberalized and competitor operators should be given time to establish. At the same time the regulatory agencies should be put in place. The Telecom Regulatory Commission, the Public Utilities Commission are some such agencies already operating. Why then should the privatization of SOE`EDs such as the Ceylon Electricity Board be suspended or stopped? We all know the time and cost involved in getting a new electricity connection. That was the case for a telephone line prior to the privatization of Sri Lanka Telecom.

Whilst privatizations are overall desirable, there may be a need to retain in the hands of the state certain enterprises such as the State Pharmaceuticals Corporation to compete with the Private Sector and import low cost generic drugs that the Private Sector is not keen on and serve as a price stabilizer for drugs.

State of the economy

To bring out the issues underlying the role of the Private Sector we need to examine why the economic of Sri Lanka has not flourished.

The economy

After two years of economic growth, low inflation, stable exchange rates, low interest rates and increasing foreign reserves the economy has taken a reverse turn. The change in the

positive economic trends coincided with the steep increase in international oil prices and the new UPFA government taking office.

What is the position today ?

Inflation, as measured by the Colombo Consumers'ED Price Index (CCPI) has increased from 0.5% in January 2004 to 12% in October 2004 on a point to point annual basis.

On a similar basis, the all island price index (SLCPI) has moved from a negative 0.9% in January 2004 to 14.4% in September 2004.

The trade deficit and balance of payments deficit have worsened. After three years of balance of payments surpluses, the trend has reversed in 2004 to run into a deficit of over US\$ 300 million for the first ten months. The significant increases in worker remittances and tourism receipts have not been adequate to absorb the growing trade deficit.

The exchange rate has depreciated by 7.5% up to October end, 2004 after an year of stability in 2003. In fact, in 2003 the Central Bank of Sri Lanka (CBSL) purchased US\$ 375 million to hold back the appreciation of the Rupee. But in 2004 the CBSL has sold that much of US\$ to slow down the depreciation of the Rupee.

Foreign reserves have dropped by US\$ 300 million in 2004 so far and have gone below the level of comfort for imports and short-term foreign debt commitments.

Interest rates have begun to rise. When interest rates increase, economic growth slows down but so does consumption and inflation. In today`EDs context a rise in the interest rates is the lesser of two evils. Inflation and Trade Deficit are more serious and need to be abated.

What were the reasons for the reversal of trends?

The steep increase in international oil prices was one major reason. If crude oil prices had remained at US\$ 30 a barrel, the trade deficit and balance of payments deficit would have been far less. The depreciation of the Rupee and the depletion of foreign reserves would have been negligible. But international oil price increases are beyond our control and we should have a resilient economy to withhold such increases.

The drought that prevailed was a contributory factor to the deterioration of the economy.

The budget deficit for 2004 revised from 6.8% to 7.3% of GDP is likely to be much higher. The delay in raising petrol and diesel prices to absorb the international oil price increase, the reintroduction of the fertilizer subsidy and certain food subsidies and the growth in the money supply are the other reasons for the deterioration of the economy.

Some positive developments :

To complete the picture two positive aspects must be mentioned.

`EF Tax revenue in the first half of the year has increased by Rs. 20 billion and is likely to further increase in the second half.

`EF GDP growth rate will still remain above 5% for the year 2004.

Millennium Development Goals (MDGs) :

The world leaders including Sri Lanka`EDs President Chandra Bandaranaike Kumaratunga, under the patronage of the United Nations declared eight Millennium Development Goals (MDGs) to be achieved by the year 2015. These have been adopted in Sri Lanka, and 16 tasks (targets) have been identified to pursue the MDGs.

The Private Sector has been championing many initiatives, such as environmental protection, good governance and combating HIV/AIDS as it recognizes that it cannot operate effectively if the macro environment is not conducive.

The Private Sector has also urged successive governments to adopt certain policies in areas such as education and in fiscal and monetary consolidation. The Private Sector shopping list to the government is very long. But, when they are spread on a broad canvass, they all seem to fit in neatly into the MDG compartments and complement each other. For these reasons the Ceylon Chamber of Commerce has decided to rearrange its projects and policy initiatives under the eight MDGs, which have been described as follows :

Goal. Eradicate extreme poverty and hunger by half between 1990 `F1 2015: i.e. the class of people, whose income is below US\$ 1 per day and the class of people who suffer from hunger.

Goal 2. Achieve universal primary education by ensuring that all children in Sri Lanka complete a full course of primary schooling.

Goal 3. Promote gender equality and empower women by eliminating the gender disparity in primary and secondary education by 2005 and at all levels of education by or before 2015.

Goal 4. Reduce child mortality - Reduce by two thirds between 1990 `F1 2015 under 5 years mortality rate.

Goal 5. Improve maternal health by reducing, by 2015, the maternal mortality rate by three fourths.

Goal 6. Combat HIV/AIDS and Malaria

Goal 7. Ensure environmental sustainability

Goal 8. Develop a global partnership for development which aims at having in place a rule based non-discriminatory trading and financial system including commitment to good governance and poverty reduction nationally and internationally.

Poverty reduction in Sri Lanka is a bigger challenge than what the statistics indicate. Improving the income levels is the first challenge of the government and the Private Sector. To improve the equality of income distribution and reduce income disparity is the next challenge. This is why the Ceylon Chamber of Commerce and others in the Private Sector have from time to time prescribed a number of recopies to achieve rapid economic growth. The outcomes have not been entirely satisfactory, though there is a visible improvement in the quality of life of the poor. The social indicators also support this observation. For instance real income of people in Sri Lanka would have grown for the proportion of incomes spent on food to have declined from 60% in 1953 to 36% by 2003 and spending on housing to have increased from 4%to 11% and on transport and communication from 3% to 9% over the same period.

The government is addressing how the concentration of economic activities in the District of Colombo and the Western Province, which accounts for 48% of the country`EDs GDP, could be spread throughout the country. Development of infrastructure, in particular, roads, railways and ports and possibly attracting investment into the regions through tax concessions are some of the recommendations made by the Private Sector to achieve this objective.

How can Sri Lanka in the backdrop of all these challenges achieve sustainable economic prosperity?

I ask this question to share with you the economic miracle of Ireland and its success factors. Comparing Sri Lanka with Ireland brings out the stark reality of the difference that separates us so widely in economic prosperity. Tackling the difference is I believe the greatest challenge for Sri Lanka`EDs Private Sector and in my view, the Role of the (Formal) Private sector.

15 years ago, Ireland was one of the poorest countries in Europe. According to the Economist of October 16th, it had high unemployment, slow growth, high inflation, heavy taxation and towering public debts. From this dismal state in 1989 Ireland has emerged as the country with the third highest per capita GDP in the European Union. Its unemployment fell from 17% in 1987 to 4% in 2003 and public debt was reduced from 112% of GDP to 33%. Its per capita

GDP is US\$ 35,000 compared with Sri Lanka`EDs US\$ 1,000. Sri Lanka has 23% of its population below the poverty line, Ireland has 10%. For a population of four million people Ireland has foreign reserves of over US\$ four billion. Sri Lanka has less than US\$ two billion for nearly 20 million people. On average Ireland has one fixed telephone line for every two persons and over 75% own a mobile phone.

How was this progress made?

Two events, according to the Economist, both occurring well before 1987 laid the foundation to the recovery.

`EF In 1957 Ireland reduced income tax to zero for foreign multinational companies.

`EF Free trade with Britain and joining the EU in 1973 was the other.

These were buttressed by a common language Ireland shared with America to attract American investors. But things went wrong with the two oil shocks in the 1970`EDs and Ireland`EDs unwise response. To offset the cut in living standards imposed by higher oil prices, successive Irish governments resorted to monetary expansion. The result was high inflation, high unemployment, sluggish growth, electoral instability and exodus of graduates.

Are we in Sri Lanka heading in this direction? If we are not as bad, we surely will be worse than that if the government lets loose the budget deficit by granting jobs without work, wage increases without productivity gains and subsidies without government revenue.

How did Ireland change its fortunes after 1987?

In 1987 Irish public debt was 112% of GDP, higher than Sri Lanka`EDs 106% at the beginning of 2004. The Irish government supported by the opposition started to cut spending, taxes and borrowings. The result was falling interest rates which in turn stimulated economic growth.

`EF The tax cuts, in particular those introduced in 1957, began to yield results when the macro economy responded to fiscal and monetary consolidation.

`EF The Irish engaged in social dialogue and in 1987 the trade unions accepted wage restraints in exchange for policy influence.

`EF EU subsidies helped but by not more than 0.5% of GDP growth annually.

`EF Investment in education was effective and supplied skilled workers, scientists, engineers and business school graduates.

`EF Lower personal taxes gave a big boost to local enterprises.

How can Sri Lanka have a government that will introduce and an opposition that will support spending cuts, public debt reduction, tax cuts and good fiscal and monetary consolidation?

This brings us to the weighty question. With Sri Lanka`EDs democratic system of proportional representation, executive presidency, minority party bargaining power and ability to make and topple governments and the desire of the majority of the politicians to capture power, can we expect a bipartisan approach as Ireland had in 1987 ?

In a democratic system where political leaders are more influenced by the popularity of the policies than by the long term benefits, no organization, whether it be the foremost Chamber of Commerce, the OPA or other such body, can pontificate on the goals and policies to be pursued.

The organized private sector in terms of the numbers of people who own or control the companies and the other business organizations is very small and probably less than 1% of the voter population. To the politician it is an insignificant lobby group. Exerting influence on government especially to take a longer term view when, in the short term the action is

unpopular by the voters has been the stiffest challenge. More often than not the private sector has failed to change the political thinking.

In this situation, should the organized private sector take it upon itself the challenge to tell the people what is best for them and in particular to their children and the future of Sri Lanka? Can we through that effort make the right policies, the popular choices and use the vote bank to shape the thinking of the political leadership. If the private sector were to undertake this task as its role in society, it should make sure that it does so without losing its independent, objective and apolitical status.

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