

The private sector of sri lanka economics



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Contents

- 5. Decision AND RECOMMENDATIONS

Economic development can be defined as a procedure whereby the existent per capita income of a state increases over a long period of clip while at the same time poorness is reduced and inequality in society is by and large diminished or at least non increased. The economic system of Sri Lanka grew easy and unevenly during the last five decennary mostly because of the populist economic policies that failed to set up inducements needed for investing and economic growing. However, human public assistance statistics are much higher than the other developing states in the part. During the last five decennary private sector part to the economic development of Sri Lanka is in different grade.

It is widely accepted that the engagement of private sector is a basic demand and better suited for the prolonging rapid growing. The trade liberalization and backdown of province monopoly and raising control over the establishments managed by the authorities have made private sector the “ Engine of Growth ” in recent old ages. New chances in the state have been created by the authorities ‘ s programmes for public endeavors reforms and substructure development. Private sector creates employment spread outing labour market to hapless section of the population. Growth of the private sector contributed to beef up the revenue enhancement base of the state by which authorities enable to finance wellness, instruction and other basic societal services vulnerable societal groups.

Therefore, the function of the private sector is cardinal to develop the state 's economic system. This paper is traveling to analyze how the private sector contributes to the economic development of Sri Lanka.

2. TREND OF ECONOMIC DEVELOPMENT

A survey of Sri Lanka ' s economic development (Bruton et al 1992) indicated a footing cause of comparatively slow growing over the long term has been inconsistently in the policy model taking to broad fluctuations in one-year rates of economic growing. Development outcomes in different stages since independent have reflected the policies pursued by consecutive authoritiess, which in bend have been dictated by the dominant political orientations of the twenty-four hours and the political kineticss of Sri Lanka ' s electoral system of the authorities.

The authorities elected in 1977 remove barriers to broad economic policies that had been impossible in the past and enacted new Torahs for comprehensive political and self sufficiency with economic reforms. Previous authoritiess were largely focused on import permutation and controlled economic steps. The reform bundle included duty decrease, rupee devaluation, revenue enhancement reforms aims at exciting the capital market and bettering revenue enhancement conformity, farther liberalisation of fiscal and trade good markets and liberalisation of exchange controls over the current history of the balance of payments (Dunham and Kelegama, 1995) . Afterwards the consecutive authoritiess adopted the liberalization policies of the old authorities with farther alterations.

The Sri Lankan economic system has experienced accelerated growing over the past two old ages despite inauspicious dazes such as oil monetary value hikings and the tsunami catastrophe. Growth has averaged 6. 5 per centum during 2005-2006, which is above the historical norm of 4-5 per centum during last two decennaries. With per-capita income lifting above US \$ 1350 in 2006, Sri Lanka is on a steady way to accomplishing position as a middle-income state.

Table 1: Tendencies in Key Macroeconomic Indexs 1990-2006

1990-2000 Average

2001

2002

2003

2004

2005

2006

Agribusiness Sector (% alteration)

2. 5

-3. 4

2. 5

1. 6

-0. 3

1. 5

4. 7

Industrial Sector (% alteration)

6. 8

-2. 1

1. 0

5. 5

5. 2

8. 3

7. 2

Manufacturing

8. 1

-4. 2

2. 1

4. 2

5. 1

6. 0

5. 8

Construction

5. 2

2. 5

0. 8

5. 5

6. 6

8. 9

6. 8

Service Sector (% alteration)

5. 6

-0. 5

6. 1

7. 9

7. 6

6. 4

8. 3

Transport, Storage and

Communication

6. 4

3. 8

7. 6

10. 2

13. 7

12. 7

13. 1

Sweeping and Retail Trade

5. 5

-6. 7

5. 6

7. 3

5. 7

2. 6

5. 9

Banking. Insurance and

Real Estate

7. 7

7. 9

11. 1

10. 6

5. 6

6. 5

9. 7

Public Administration and

Defense mechanism

3. 5

1. 0

1. 3

2. 1

3. 9

5. 4

2. 8

GNP (Gross National Product)

6. 2

—

4. 1

6. 6

5. 3

5. 6

7. 0

GDP (Gross Domestic Product)

5. 3

-1. 5

4. 0

6. 0

5. 4

6. 0

7. 4

National Savings (% of GDP)

19. 8

20. 3

19. 5

21. 6

21. 6

23. 3

25. 0

Entire Investing

(% of GDP)

25. 2

22. 0

21. 3

22. 1

25. 0

26. 5

30. 0

Public Investment

(% of GDP)

6. 8

5. 8

4. 6

5. 3

5. 2

6. 9

6. 6

Private Investing

(% of GDP)

18. 4

16. 2

16. 7

16. 8

19. 8

19. 6

23. 4

Per Capital GDP (US \$)

473

—

870

948

1030

1197

1350

Beginning: World Bank, 2007, Sri Lanka Development Forum: The Economy, Regional Disparities, and Global Opportunities and Annual Report 2006, 2007, Central Bank

The economic system of Sri Lanka can be categorized in to three wide sectors ; agribusiness, industry and serves sectors.

2. 1 Agribusiness

The Agriculture sector grew by 4. 7 per centum lending 11. 1 per centum to the overall growing. The agribusiness sector continued it recovery in 2006 benefiting from beef uping partnership between public and private sector together with favorable conditions.

2. 2 Industry

The industrial sector in Sri Lanka comprises a scope of big corporate houses, little and average graduated table endeavors every bit good as micro or

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family concern that are based on self-employment activities. The industrial sector is account for 27 per centum of the GDP and employs 1. 8 million people or 24 per centum of the labour force. During the last decennary the mean one-year growing rate of the industrial sector has been 6. 2 per centum. The sector comprises 78 per centum of the value of Sri Lankan exports.

2. 3 Servicess

Contribution from the service sector was the highest at 62. 6 per centum as the sector grew by 8. 3 per centum during the twelvemonth. The continuance of the growing impulse reflected in the sector has chiefly been response to increasing consumer demand for services in the state. The continued investing on economic services and substructure and productiveness betterments besides paved the manner for outgrowth of the services sector as the chief subscriber of the economic growing.

2. 4 Investment and nest eggs

Investing outgo increased 28 per centum over 2005. In existent footings it grew by 13. 4 per centum and as a ratio of GDP investings improved to 28. 7 per centum (26. 5 per centum in 2005) . Growth in private sector accelerated to 31. 7 per centum in 2006. High capital outgo was apparent in the economic system with the mill industry, building and telecommunication sectors registered higher degrees of investings during the twelvemonth. Although in 2006 both domestic and national nest eggs grew at high rate as a ratio of GDP it dropped marginally.

3. CURRENT SITUATION OF PRIVATE SECTOR

3. 1 Fiscal facets

One of the cardinal restraints to growing of the private sector is the deficiency of equal entree to finance at appropriate rates and footings. The cost of finance shackles private houses. As per the survey of Asian Development Bank (ADB) and World Bank (2004) the little urban fabrication houses pay significantly higher mean involvement rates (18 per centum) than the big (12 per centum) . They besides pay higher rates than rural endeavors (14. 5 per centum) which benefit from subsidies from province fiscal establishments, particularly Samurdhi bank and microfinance establishments.

Entree to formal finance is particularly restricted for investing intent in rural countries. Internal resources provide biggest portion of investing finance for rural endeavors while household and friends are the chief external beginnings. Public fiscal establishments and Non Governmental Organisations, despite a widespread presence in rural countries provide a really modest portion.

Collaterals play a critical function in the handiness of finance. When necessitating to offer collaterals, urban fabrication houses turned chiefly to set down and edifices, followed by the machinery. Land is even more of import as collateral for rural endeavors. Lack of recognized collaterals pushes the investors for informal funding.

The Sri Lankan fiscal sector has big figure of commercial Bankss, depositary establishments (National Saving Bank) , finance companies, regional rural

development bank, insurance companies, a twosome of pension finances and three province sponsored long term fiscal establishments. Rural recognition strategies cater to the support needs that these funding establishments are unable to take on. They are funded by three beginnings ; giver bureaus, authorities and private sector Bankss. Donor bureaus prefer to impart their finances through the development Bankss operated by the private sector.

3. 2 Industry

Private sector industries which account for 96 per centum of the end product in the industry in 2006 grew by 5. 8 per centum. The two sub classs of private sector industries, Board of Investors (BOI) and Non BOI grew by 5. 9 per centum and 5. 6 per centum severally to the overall fabrication industry end product. Small and Medium Enterprises (SME) industries are considered as the anchor of national economic system. SME is history for approximately 70 per centum of all industrial end product and 31 per centum of employment.

3. 3 Service

Private sector plays a important function in the service sector. Privatised State Owned Enterprises (SOEs) such as Sri Lankan Airlines, Sri Lanka Insurance, Sri Lanka Telecom drama major function in each country. Sri Lankan Airline dominates the air power sector, while private companies are wholly involved in insurance field. Sri Lanka is traveling towards a to the full liberalised telecommunications market environment. At present there are 3 fixed line telephone service suppliers, 4 cellular phone service suppliers and

32 cyberspace suppliers in Sri Lanka and covered 3 million endorsers of cellular phones.

The part of private sector to power coevals is limited. Recently the private BOT (Built Owned and Transfer) and BOO (Built Owned and Operate) investing strategies in thermic power workss, inducements for exporters to import equipment and bring forth their ain power ; and grants to foreign private houses to put in new power generating installations introduced to obtain private sector engagement in power sector.

The private rider service competes with the authorities conveyance services and offered a good service. The Sri Lanka railroad system is wholly owned by the authorities. It serves chiefly as a rider train service. Like most railroad companies in developing states it is inefficient and uneffective in its operations. It suffers from hapless direction, regulated menu tabular arraies, is overstaffed, and has hence come to play a bit by bit worsening function as a conveyance manner. Hence, the private investors are non acute to take part in railroad conveyance system as capital cost is in a high scope.

4. ISSUES AND PERSPECTIVES

4. 1 Government Policies

4. 1. 1 Investing

The overall policy scheme has been designed to incorporate the positive properties of market based economic policies with domestic aspirations by supplying the necessary support to domestic endeavors and promoting foreign investings.

The consecutive authorities have introduced policies to advance private investing during last three decades. The Greater Colombo Economic Commission was established in 1978 with necessary powers to offer superior regulative, revenue enhancement and administrative intervention to eligible investors, normally big 1s. This administration renamed as Board of Investors (BOI) . Over the time BOI has become a powerful presence in the Sri Lankan concern universe. Almost all the Foreign Direct Investments (FDI) in Sri Lanka enters through the BOI “ gateway ” . Since the initial liberalization in the late seventies, there has been further betterment for non-BOI investors but consistently or across the board. Sri Lanka Security Exchange expanded to pull investors.

4. 1. 2 Tax

The principal revenue enhancements that affect concern in Sri Lanka are revenue enhancements on corporate net incomes and divided Value Added Tax (VAT) and import and excise responsibilities. In the standard direct revenue enhancement government net incomes are taxed at 30 per centum with moderately rapid depreciation allowances and loss carry forward of six old ages. Fiscal inducements are available for sanctioned investors for a broad scope of concern activities. Tax vacations, concessional income revenue enhancement, zero-dividend revenue enhancement & A ; keep backing revenue enhancement, import responsibility freedoms zero responsibilities on natural stuffs in export fabrication are offered for certain periods for the foreign manager investor who signed understandings with BOI.

4. 1. 3 Labor

Sri Lanka ' s concern environment exhibit many strengths but the private sector has besides to get by with an surfeit of investment-deterring labour Torahs. The tenor of much of the labour Torahs reflects a historical position that a strong function for authorities is need to protect workers. Sri Lanka besides has industrially active and political docket and can be confrontational. In bend, some employees about surely have outdated positions on labour dealings. Modern direction practise is to see employees as a valuable plus to be nurtured and managed in a collaborative ambiance.

Although industrial Disputes Act includes comprehensive machinery for deciding industrial differences, determinations are slow. With regard to the labor cost minimal rewards exist for a broad scope of industrial and occupational degrees. Normally the existent rewards paid tend to be well higher. Termination of employment is really rigorous in Sri Lanka. As per the Termination of Employment of Workmen Act an employer can non disregard an employee, except for serious disciplinary misdemeanors, unless there is a anterior written consent by the employee or anterior written blessing by the Labour Commissioner.

4. 2 Development of SME

Small and medium endeavors (SMEs) have been identified as an of import strategic sector for advancing growing and societal development of Sri Lanka. Over the old ages, SMEs have gained broad acknowledgment as a major beginning of employment, income coevals, poverty relief and regional development. The SMEs screen wide countries of economic activity such as agribusiness, excavation. Fabrication, building and service sector industries.

Although SMEs encompass agribusiness, fabrication and service sector constitution, dependable informations are available are available merely for the fabrication sector. Within the fabrication sector, little and average graduated table industries (SMIs) history for approximately 96 per centum of industrial units, 36 per centum of industrial employment and 20 per centum of value added. However, the entire part of SMEs to the national economic system can non be estimated due to miss of information.

One of the issues SME sector is confronting deficiency of an overall Policy for the SME Sector. Absence of a coherent SME sector scheme or development program and deficiency of private sector engagement in policy preparation and administrative reform affect the sector. Further deficiency of monitoring and rating capacity to mensurate policy impact and compile informations to function as a footing for future policy determinations is besides impeding the development of the sector. The important figure of SME houses are suffers from high dealing costs, both in get downing new houses and runing bing 1s. The complex inducement construction and revenue enhancements are the most serious consequence for the development of the SME in footings of allotment of efficiency.

4. 3 Denationalization of State-owned Enterprise (SOEs)

Denationalization is a scheme or the procedure which transfer wholly or partly an plus or endeavor which owned or controlled, either straight or regulated by the province. Privatization provides an chance to educate market capitalist economy, to construct establishments and to reenforce democracy. It is a procedure of authorization that makes people economic

and political participants by making chances for ownership and sense of engagement in society at big.

Denationalization of province owned endeavors was announced as a province policy in 1987 with a position to cut down the load on the budget due to the operations of the SOEs and bettering efficiency and profitableness. The necessary legal and institutional model was established and modifies to smooth the denationalization procedure. Privatization procedure has been carried out over a decennary. To day of the month about 100 public sector endeavors have been privatized, including plantation (25) , fabricating (40) , fiscal (8) and services (20) . Among the major endeavors that were privatized by 2006 were Air Lanka, Telecom, Prima Ceylon, Sri Lanka Telecom, Sri Lanka Insurance Company, Ceylon Gas Company and National Development Bank.

In 1996 independent statutory organic structure Public Enterprises Reform Commission (PERC) established to supervise the denationalization programme in a structured and systematic mode. However RERC dissolved in June 2007. The attack of the present authorities differs form that of the old 1. It has ruled out denationalization of SOEs but has announced that it is acute on reconstituting them. Restructuring of SOEs in Sri Lanka is now under the wide umbrella of the Strategic Enterprise Management Agency (SEMA) .

A competitory environment demands to be created for the successful denationalization programme in order to increase the economic effects of denationalization. The absence of a competitory environment would intend

that denationalization could alter steadfast behavior. In other words, unless the privatized houses face competition from other private sector houses, they may be tempted to act as monopolies. A important impact on denationalization public presentation can besides be seen from the betterment in managerial accomplishments and attitudes.

4. 4 Infrastructure

One of the critical constituent towards promote private sector is infrastructure. Sri Lanka deficiency sufficient quality substructure. Electricity supply is view by many enterprisers as the most serious hindrance to the growing because of the hapless entree, high cost and undependability. Transport besides poses an of import obstruction peculiarly for rural endeavors. The authorities addition investing on substructure and took enterprises to utilize private-public partnerships to develop substructure.

5. Decision AND RECOMMENDATIONS

The private sector in Sri Lanka has grown significantly over the past two decennaries as evidenced by the lifting portion of part to private sector in GDP and of the private sector in fabricating end product. However, the private sector has yet to recognize its possible because of policy and institutional hindrances. The Government ' s broad-based reforms and its committedness for furthering economic growing, enlargement of employment and betterment of life criterions has created the footing for germinating a suited enabling environment for the private sector to presume a prima function in transforming Sri Lanka ' s economic system.

Since current labor Torahs are non much favorable to the investors ' creative activity of labour market conditions conducive to employment and income coevals activities, through harmonious dealings between employers and employees is truly of import for development. Further the authorities needs to supply quality substructure for the development of the private sector. Private -public partnership can be used for substructure development. Since the SME is really of import portion of the economic system more inducements needs to supply for the development of SME sector. Reforms should be instituted non merely during their existent execution of the denationalization but in the operations of houses and markets after new policies are in topographic point. Government must guard against replacing a public monopoly with a private one by developing effectual regulative establishments as successful denationalization programme besides entails a legal and modern fiscal system.