



## **Dr. Lloyd Fernando**

Dr. Lloyd Fernando was appointed a founding member of the Board of Directors of the Gamani Corea Foundation by the late Dr. Gamani Corea himself in 2002. He has been the Honorary Chairman of the Board since 2020.

Dr. Fernando had his university education in Moscow (M.Sc., Patrice Lumumba Peoples' Friendship University, 1966) and Sussex (D.Phil., University of Sussex, 1979).

He had a long and illustrious career at the Ministry of Finance and Planning. He was the Director General, Department of National Planning and the State Secretary, Ministry of Policy Planning and Implementation. In 1993, he retired prematurely to take up the position of Alternate Executive Director at the Asian Development Bank in Manila. On his return to Sri Lanka, Dr. Fernando held the position of Chairman, Marga Institute and Program Director, Public Policy at the Postgraduate Institute of Management (PIM), Sri Jayewardenepura University. He was the Founder Director of the Institute of Policy Studies.

He served on numerous government commissions and advisory boards, including the Salaries and Cadre Commission and the National Administrative Reforms Council. One of his major achievements was the design and execution of the popular DEPS (Distance Education for Public Servants 2001-2003) program with NORAD assistance, reaching almost 3,000 senior public servants operating in all the nine provinces. His research publications cover macroeconomics, development planning, public policy, and administrative reforms.

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*at the*

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# THE FIVE-POINT PLAN AND THE TEN-POINT AGREEMENT

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## 1. Introduction

The people have spoken and rejected the old regime. In 2015, the new government is yet struggling to be born. It appears that 46% of the voters have endorsed the United National Front (UNF) Five-Point Plan. The Ten-Point Agreement signed between the UNF and a section of the Sri Lanka Freedom Party (SLFP) has not deviated from it. What was published, perhaps, is only a summary of that agreement. That could be the reason why it appears to be an incoherent, disconnected wish list. All political manifestos, however, display characteristics of wish lists. Their implementability becomes apparent only when subjected, at least as a preliminary step, to the objective scrutiny of a simple SWOT analysis<sup>1</sup>, the methodology of which is quite well known. The important point is that political rhetoric and subjective promises cannot defeat the operation of basic economic laws, which politicians often tend to ignore due to myopic political interests.

The whole edifice of economic theory rests on the simple concept of opportunity costs which indicates that you have to set your priorities right. You don't have to go to university to know this. It is also common knowledge that there are constraints to policy implementation associated with the availability of financial resources, institutional capacity, productive manpower, linkage effects, externalities, social and political impacts, as well as international economic conditions, which need to be objectively studied before any policy is formulated and tried out. It calls, in the ultimate analysis, for a coordinated approach to development management, which the late Shelton Wanasinghe observed to be necessary in the case of administrative reforms.

In *Report No 1 Administrative Reforms - An Agenda for Action*, he warns that:

***“The Committee does not consider that it is possible to implement bits and pieces of the proposed agenda and to expect to improve effectiveness. Actually, the implementation of bits and pieces of the suggested agenda could be dangerous in that it would lead to incoherent and chaotic results which would put the administrative system back rather than propel it forward.***

***Thus the Committee is unequivocal in requesting the Government that its recommendations be considered in totality and implemented as a whole.”***

The Report was published in 1987. What happened thereafter is common knowledge replete with lessons. All governments that held power since then ignored this advice.

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<sup>1</sup> Strengths, Weaknesses, Opportunities, and Threats (SWOT) analysis is a very well-known method of ascertaining the strengths, weaknesses, opportunities and threats affecting a policy or a project proposal.

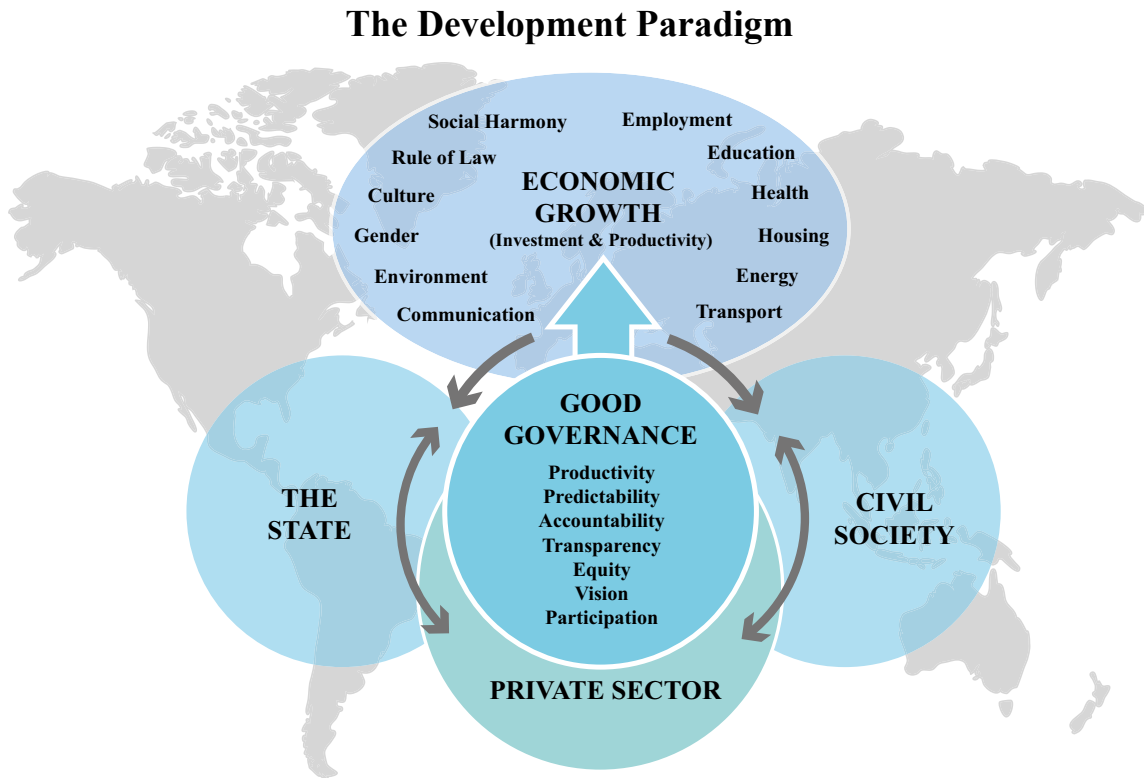
There were many ad hoc, ill-conceived, uncoordinated reform measures, mostly meant to score political brownie points and what we have today is a sick giant in the form of a public administration system, incapable of supporting a concerted development effort. The problem is not only with public administration. All areas of government development policy suffer from this malaise.

The main message of this presentation is the crucial need for a holistic approach to development, leading to a system of planning and implementation based on the principles of ‘good governance’ and ‘management for development results’.

## 2. The Development Paradigm

The need for a holistic view and a coordinated approach to development is well reflected in the following diagram:

**Diagram 1**



The global setting reflects the need to consider the international market implications of domestic development policy. We tried to ignore these in the pre-1977 period and what happened to domestic production, consumption, income growth, distribution, employment and balance of payments is well known and recorded. These issues will be analyzed later when we consider the manifesto proposals.

### • Economic Growth

The top circle on ‘economic growth’ is an attempt to define the concept of development. It is now universally accepted that economic growth is only a ‘necessary

condition' and not a 'sufficient condition' of development. Economists today refer to development as a process of 'inclusive growth' which contains all the indicators connected to growth. Growth itself is a result of investment and productivity. But for growth to become 'inclusive' it must produce better education, health, housing, etc. What is important to note, however, is that this is not a 'one directional' relationship but a mutually reinforcing one. Economic growth provides opportunities for better education, health, employment, etc., but is also symbiotically influenced by them. Such a symbiosis exists also among the various elements of development such as between education and health, which reinforces each other. What it suggests is that these symbiotic relationships must be taken into account in determining development policy and implementation systems.

### • Partnership

Development in a market-based economy (the opposite is the Soviet-type state-owned system, which is now history) is the result of a partnership involving the State, Private Sector and Civil Society. The effectiveness (development impact) of that partnership is determined by the promotional outcome of the principles of 'good governance'. It is a popular saying that 'the private sector is the engine of growth but the government is the engine driver'. As the engine driver, it is primarily the government's responsibility to ensure the application of the principles (or rules) of good governance.

Accordingly, the principles of good governance emerge not merely as ethical or moral concepts but as technical imperatives of development. The technical effects of good governance on development become obvious when we examine the role of each principle.

### • Vision

Any partnership is based on a mutual understanding of common goals. A collective vision therefore lays the foundation for an effective partnership. A vision is not a dream or wishful thinking as usually contained in political manifestos. Yet, political manifestos subjected to a SWOT analysis could provide the basis for a viable vision.

A collective vision cannot be formulated by a group of experts only. It must be the result of an intensive dialogue involving all stakeholders. It should not be couched in mere ideological terminology or obscure economic theory; nor is it a mere set of numbers. It is a vivid idealized description of a desired outcome of collective effort that inspires, energizes and helps stakeholders to create a mental picture of the targets to be achieved.

It is the prelude to a long-term Perspective Plan, like our own Ten-Year Plan (1959), which provides the basis for a series of medium-term (normally five-year) plans, usually broken down into Annual Plans, preferably on a 'rolling plan' basis. The advantage of a collective vision is that it provides a long-term perspective of opportunities and challenges to business community as well as the people. It is useful particularly where long gestation investments are needed. A credible 'development

vision' becomes a powerful tool in attracting meaningful Foreign Direct Investment (FDI).

Malaysia produced one of the best-known long-term visions (Vision 2020) in 1991 which guided its development policies right throughout the years, helping it to get closer to developed country status. Korea started its march towards development guided by long-term economic goals. Currently, it is guided by its Vision 2025. A common characteristic of all these exercises (the Malaysian and the Korean) is the position given to science and technology and human resource development.

There is a lot one could learn from these visionary outlooks and plans. We have to be cautious, however, in trying to adopt any particular model of development, whether it is the Malaysian, Korean, Singaporean, German or even Soviet, or Chinese models, for they have grown up under very different socio-economic and political conditions with deep historical roots. Lessons could be learnt, nevertheless, from individual sectoral achievements, such as in the case of the development of human resources, technology, as well as physical infrastructure.

#### • **Equity**

A collective vision takes shape only when there is equity. This is not equality per se but equality of opportunity, the opposite of discrimination. Discrimination is not only morally wrong but also deprives a country of the benefits of participation and competition. It is the competition that brings forth the best in people and organizations. Once you remove competition the incentive for better performance is lost. The strength of capitalism lies in competition which drives businesses to improve the quality of their products, lower costs, explore new technologies, train and motivate workers and raise labour productivity. Where discrimination sets in providing patronage to a select group, the result is crony capitalism, which is corrosive, corrupt and repressive.

Discrimination due to social differences - ethnic, religious or cultural - is equally corrosive. It affects not only those who are alienated but also the country as a whole through loss of national productivity. Where alienation has deep-rooted historical reasons and requires concerted long-term intervention, there is a case for affirmative action, at least as a short-term measure, as in the case of the estate population in Sri Lanka. The problems of the people in the North, and some districts of the East, can be traced mostly to the armed conflict. Separatism or even near separatism through unrealistic devolution, as advocated by certain political groups, could only exacerbate the situation by prolonging suspicion, fear and even new armed conflicts. The answer lies in 'inclusive development' through partnerships based on the fundamental principles of good governance.

A segment of the population which requires affirmative action, particularly in a developing country context, is poor women and quite often middle-class women. Discrimination against women has deep-rooted historical reasons and cultural practices. The Ten-Point Agreement refers to women's and children's rights "and adds that measures need to be taken to ensure women's social, economic and cultural

rights and also to empower them and that laws need to be formulated in accordance with the United Nations Pledge on the elimination of discrimination against women.”

Affirmative action, unfortunately, depends often on men’s perception. Women have a weak voice because of relatively poor education and political power; even though, ironically, they make a significant contribution to development. In Sri Lanka, they contribute heavily to export earnings by engaging in estate agriculture, garment manufacture and also as migrant labour. It is also noteworthy that they handle most of the school and pre-school education. What is sadly ignored is the role they play in managing families, a creation of value that never enters the calculation of Gross Domestic Product (GDP). Civil society organizations in Sri Lanka have highlighted some of the basic issues but the political voice of women is muted due to poor representation in Parliament and other state assemblies.

### • Transparency

Transparency is the bedrock of equity. Where information on government policies, rules, regulations and procedures is available only to a favoured group there is room for corruption and crony capitalism. Insider trading, restricted tender board information, and advanced information on impending financial policy made available to a few favoured parties are examples of corrupt practices.<sup>2</sup>

The proposed Right to Information (RTI) Act, if passed by Parliament will have a significant impact on transparency of government policy and implementation. Section 2 of the Draft Act states, “Subject to the provisions of section 5, every person shall have a right of access to official information which is in the possession, custody or control of a public authority.” Section 8 specifies the type of information, which covers, inter alia, particulars relating to the organization, functions, activities and duties of the ministry, powers, duties and functions of officers and employees, rules, regulations, instructions, manuals, as well as facilities available to citizens. These are details that could be easily covered on the various institutional websites. However, even where websites have been established, they are rarely updated. A central authority such as the Ministry of Public Administration should take to task government institutions that do not update information.

A major issue that has prevented the enactment of the RTI Act in Parliament is the controversy regarding the exemptions list covered under Section 5, which precludes information that “would constitute an invasion of personal privacy”, “cause serious harm to the defence of the state, its territorial integrity or national security, cause serious danger to life or safety of any person and would be or is likely to be seriously prejudicial to Sri Lanka’s relations with any state or international organizations, where such information was given by or obtained from such state or international organization, in confidence.” Similarly, there are exemptions in regard to premature

<sup>2</sup> In a letter addressed to the Senior Assistant Secretary to the President, the Secretary, Ministry of Power and Energy has complained that a particular company was able to manipulate tender conditions in respect of supply of coal to the thermal power plant in Norochcholai by having access to information that was privy only to the Standing Cabinet Appointed Procurement Committee (SCAPC) and the Technical Evaluation Committee – Daily News, August 3, 2015.

information relating to exchange rate, banking regulations, taxation as well as prices and wages policies.<sup>3</sup>

The complexity of enacting legislation giving citizenry the right to information is so complex that India took nine years to complete the process and finally did so in 2005. But it was the result of a relentless struggle spearheaded by civil society organizations. Even after enactment, there were various attempts to dilute it, the Government going to the extent of engaging a British consultancy firm to produce learned reports. One of the arguments put forward was that the bureaucracy was already overburdened with work, an argument gladly supported by a good segment of senior government officials that it is not possible to comply with some of the requirements of producing information. It has been reported that there were even death threats used to intimidate certain civil society activists in order to weaken the provisions of the Act. It is, however, implemented now without much hindrance and has become a powerful tool of enforcing discipline in government spending and curbing corruption.<sup>4</sup>

### • **Accountability**

There is a link connecting accountability, transparency, predictability, participation, equity and finally productivity. The Organization for Economic Cooperation and Development (OECD) Code of Ethics says that public servants should be accountable for their actions, to their superiors and the public, for compliance with rules, regulations and procedures. In the new approaches to public administration, they have to be accountable for the results and outcomes of their actions.

The principal aim of accountability systems is to prevent corruption - the abuse of public office for personal gain. Corruption has many corrosive effects on development. It adds to costs, which have to be borne by the people. It also discourages investment because of the additional financial burden. Corruption also misallocates talent, for rent-seeking activity becomes more lucrative than productive activity. It also leads to misallocation of resources particularly foreign aid and foreign private investment.

Accountability in respect of the use of public funds (finances) is clearly laid down in the form of parliamentary allocations through the Annual Budget and the system of reporting through the Treasury to the Public Accounts Committee. Ministries and departments are not permitted to exceed the expenditure limits set out in the Budget, nor are they allowed to switch expenditures. However, they have often recourse to 'supplementary estimates', which weakens the principle of public accountability, even though one might argue that it is the proper practice in terms of the Constitution. Supplementary estimates are not fully debated, rushed through Parliament and alter the originally agreed parameters of the Budget. A further shortcoming is that the Public Accounts Committee rarely meets and its deliberations are often a formality, especially with the new practice of a governing party member of parliament chairing the meetings. Even though the Committee on Public Enterprises (COPE) has been meeting more often, the question is how much of the decisions have been implemented.

<sup>3</sup> Readers are advised to read the Draft RTI Bill (2015) for more accurate information.

<sup>4</sup> Right to Information, Daily News, August 3, 2015..



Secretaries of ministries are often referred to as ‘Chief Accounting Officers’. The question is, how ‘independent’ are they to perform that function? Can they deviate from the parochial political interests of the ministers under whom they serve? They are firstly, expected to function “subject to the direction and control of his Minister, exercise supervision over the departments of government and other institutions in charge of the Minister” (19<sup>th</sup> Amendment, Section 52(2)). In the 1946 Constitution, the Permanent Secretary exercised such supervision “subject to the general direction and control of his Minister.” In the 1972 Constitution, the word “general” was deleted. “General direction” relates to matters of policy only.

Further, “the Secretary to a Ministry shall cease to hold office upon the dissolution of the Cabinet of Ministers...”<sup>5</sup>, tying further the fortunes of his office to that of the minister. This encourages secretaries to acquiesce in the violation of rules and regulations proposed by a minister. Further, what is generally observed is that the majority of the current secretaries do not have the requisite knowledge and intellectual capacity to stand up to a minister when attempts are made to violate accountability.

It is generally believed that the proposed Audit Commission and the Audit Service, however, could help secretaries and heads of departments to play their roles as chief accounting officers and custodians of accountability. Yet, there is a danger that an ‘overkill audit system’ could rob government institutions of the benefit of innovative practices, pushing heads of institutions to play safe. This is a universally observed phenomenon, as Lou Winnick of the Ford Foundation, observed in the U.S.:

***“In government all of the incentive is in the direction of not making mistakes. You can have 99 successes and nobody notices, and one mistake and you are dead.”***<sup>6</sup>

### • Predictability

Predictability assumes that laws, rules, regulations, procedures and policy decisions, once adopted, and are followed diligently. To change these in midstream is like shifting the goalpost in a soccer match when play is in progress, in order to influence the outcome. Predictability is based on the cardinal principle of the Rule of Law, which means that decisions made by the government are not arbitrary, instead are founded on well-defined rights and duties. It also means that rules are applied without exception, unless predetermined and made transparent. Where rules appear to be inappropriate to changing situations, their annulment or amendment must be decided *ex-ante*, providing sufficient time for private decision-makers and stakeholders to adjust their plans. Failure to do so has often resulted in costly litigation.

Consider, for instance, the award of a government tender, which is later quashed by the courts because proper procedures have not been followed. Far worse are situations where tenders have been received, processed and decisions taken, only

<sup>5</sup> Nihal Jayawickrama, The Proposed 19th Amendment - a Critique, Sunday Island March 29, 2015.

<sup>6</sup> 19<sup>th</sup> Amendment Section 52 (2).

to discover that the terms of reference are not consonant with the objectives of the project, as a result of which fresh tenders have to be called. The question arises as to who compensates the bidding firms for the expenses incurred in preparing the bids.

It is important, to appreciate that a predictable regulatory framework is crucial for firms to calculate the expected return on investment. On the other hand, uncertainty regarding the application of regulations raises the cost of capital by increasing the risk of investment. Investors need to be assured that bidding processes are fair and free from undue political influence, bureaucratic discretion or serious negligence. It means that the results of public bidding must be honoured and implemented.

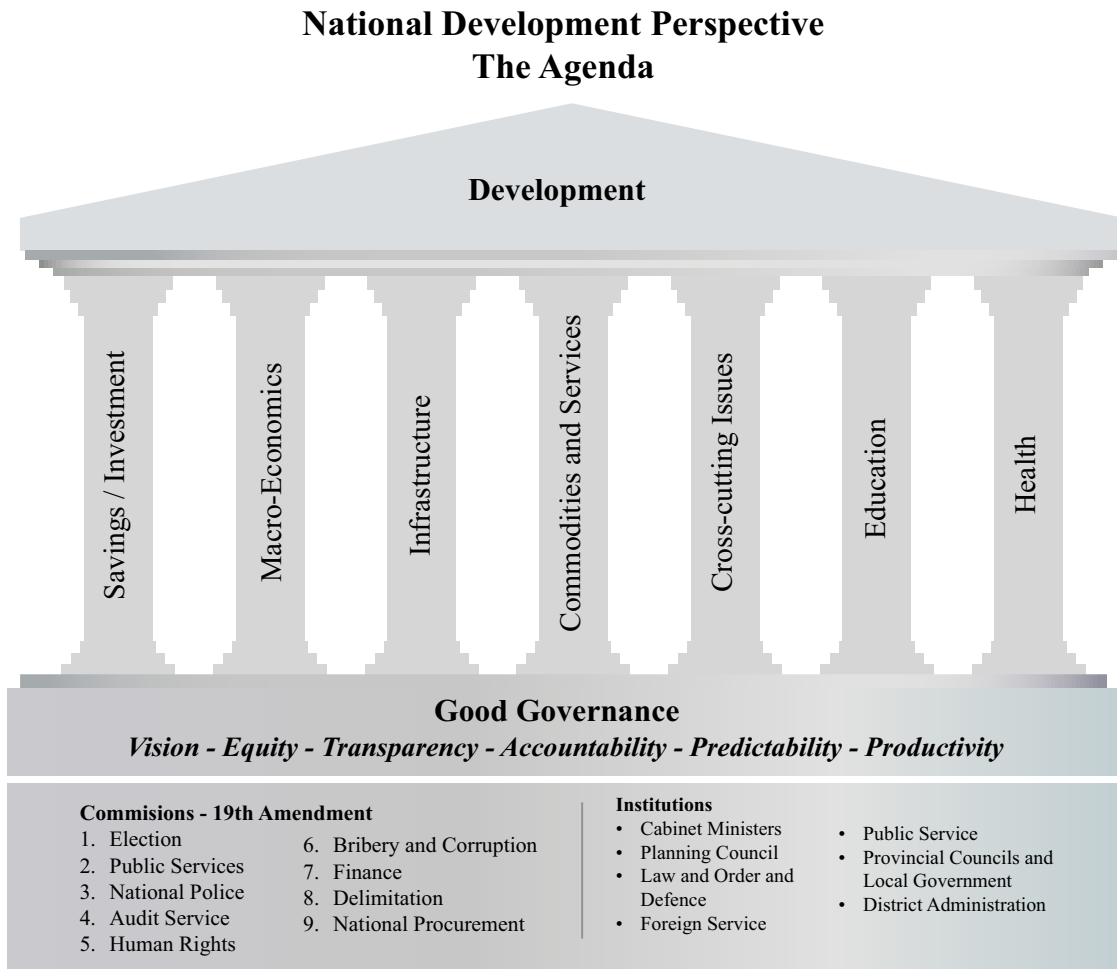
Predictability is important also where citizens are concerned. They must know that the law would be applied to everyone equally. Consider the situation where an ordinary citizen has to go to a police station to lodge a complaint. He would be well advised to get an introduction from an influential politician to be taken seriously by the relevant officers. Failure to do so could result in having to meet a countercharge from the opposite party which has better political influence. Even where political intervention is not required to sell a point of view, one could still be at the mercy of cynical police officers who may not care about a citizen's right to save time.

#### • **Productivity**

Productivity could be viewed both as a principle, as well as, an outcome of good governance. There are two sides to productivity - efficiency and effectiveness. Efficiency reflects doing a job within an expected time frame at relatively low cost, while effectiveness reflects doing it appropriately, with optimum outcome. Productivity is extremely important where there is a lack of capital and an investment constraint. While skills, technology, management, leadership and motivation are essential factors of efficiency, productivity also means rational decision-making with regard to the choice of investment. You could build a school with utmost efficiency but if there are no students and teachers, it becomes a waste of limited resources. Wrong investment decisions are often the result of parochial political interests, which made one-time Soviet Prime Minister, Nikita Sergeyevich Khrushchev to remark that "politicians are good at building bridges, where there are no rivers." A good decision-making process is a fundamental outcome of good governance. It is the foundation of development.

The Diagram 2 below attempts to indicate graphically the ideal decision-making process, in a coordinated manner, based on the institutions of good governance as the foundation:

**Diagram 2**



**3. Development**

There is often a tendency to mix desired outcomes (development indicators) with outputs, activities and inputs. This is obvious when you look at all the political party manifestos. The UNF Manifesto proposes a “five-point plan”, suggesting such a mixture.

A political party manifesto, even the best written, cannot be implemented without going through the discipline of a planning process. There is enough experience in developing countries from which one could learn how successful plans could be drawn up and implemented effectively. The most accepted approach, in simple terms, is suggested by the methodology that is popularly known as Managing for Development Results (MfDR)<sup>7</sup>. The process starts with defining the desired outcomes,

<sup>7</sup> Please see: [www.mpi.gov.lk](http://www.mpi.gov.lk), for a short description of MfDR under the former Ministry of Plan Implementation. An excellent, more comprehensive paper was published in 2009 by Dhara Wijayatilake who was in charge of establishing the MfDR system in the Ministry of Plan Implementation. The whole system was discarded when the Ministry of Finance took over the function of project monitoring.

precisely in the form of Key Performance Indicators (KPI), which are then worked backwards through the identification of the related outputs, activities and inputs.<sup>8</sup> The process, however, takes the form of an iterative exercise, reworking KPIs in line with available inputs, possible activities and outputs. All the desired outcomes in the manifesto will have to be put through this process. Planning, however, is not complete without an arrangement for progress monitoring and impact assessment. The planning process is complete only when the impact assessment provides feedback for midterm adjustments and future planning.

### • The Seven Pillars

The seven pillars represent planning categories arranged separately for analytical convenience. They should not be confused with the conventional economic sectors, even though they contain some of those characteristics. The important thing to note, to repeat once again, is that all the pillars must function in a coordinated manner, supported by the institutions of good governance, which provide the foundation.

#### *Savings and Investment*

Investment, supported by productivity (incremental capital output ratio) is the basis for economic growth. It is economic growth that creates opportunities for employment and increase in per capita incomes, which when distributed equitably (not equally, but, based on individual contributions) results in overall prosperity. The level of investment required is determined by national savings plus foreign savings (loans and direct investment).

Sri Lanka managed to invest about 30% of its GDP during the last few years; 24% of it on average came from the private sector. Government investment was about 6%. The rate of growth of GDP during this period was about 7%. What it implies is that the incremental capital-output ratio (ICOR), reflecting the productivity of capital, was around 4.3. If we are to increase the growth rate to 8% per annum, we will need an investment of around 35%, unless, of course we manage to reduce the ICOR through higher productivity by introducing new technology and skills.

Accordingly, there is a need to bridge the gap in investment and productivity, which given domestic constraints, pushes us to seek productive FDI. Loan financing could mitigate the need but, beyond a point, could create debt servicing problems with balance of payment implications. The best solution lies in attracting FDI, but to areas which either increase our export earnings or reduce import expenditure, or even better, do both. The latter indicates the reason why arbitrary attraction of FDI is not only of little use, but even harmful.

There is, however, intense international competition for FDI. The United Nations Conference on Trade and Development (UNCTAD) Annual Reports on foreign investment indicate the pull factors - what attracts FDI to a host country. Obviously, the main reason is the opportunity to make profits, even though there may be exceptions,

<sup>8</sup> David Osborne and Ted Gaebler, *Reinventing Government*, Penguin, 993.

where a source government may encourage its businessmen, through subsidy systems, to enter a particular non-profit market due to geopolitical strategic reasons. To make profits, an investor would require a relatively stable political environment and, above all, policies that are predictable. Corruption may be tolerated up to a point where it still leaves a reasonable margin of profit for repatriation. Profits are often related to the size of the market, availability of natural resources, low-cost labour, infrastructure facilities, tax concessions and ease of doing business.

The UNF Five-Point Plan makes a one-line reference to FDI under the section on “Accessing the Global Market”, where it says “Encouraging foreign firms which are globally competitive to invest in Sri Lanka”. Such encouragement to invest in nationally profitable areas requires a planned approach which combines the efforts of the Board of Investment (BOI), Export Development Board (EDB) and Commerce Department (consular representation), in coordination with the Ministry of Finance and other relevant ministries. In fact, FDI policy should be a component of the national development plan for better direction and coordination. The ‘One stop shop’ concept, which needs no introduction, has been on the agenda for quite some time and steps must be taken if Sri Lanka’s ranking in the World Bank ‘Ease of Doing Business’ index is to move up as an encouragement to FDI.

### *Macroeconomics*

Sri Lanka is facing two cliffs staring at each other on opposite sides - the balance of payments cliff and the fiscal cliff. It is a matter of primary concern how to move away. The balance of payments is largely determined by the trade balance, with ever-increasing imports, while exports are lagging behind. There is very little one could do to curb imports. In fact, our exports have large import content. If we have learnt lessons from pre-1977 import substitution policies, we would rather concentrate on the export sector, which includes services. In recent years we have seen the scope for IT-based services. The fundamental question is whether there is a role for the government in helping industries, apart from opening the doors through feasible trade agreements and fiscal and monetary policies, to identify potential areas of expansion based on our dynamic comparative advantages. The latter suggests a research agenda for BOI and EDB in collaboration with authorities dealing with science and technology and academia.

No government could go on ignoring the need to keep the exchange rate, at least, in line with domestic inflation. Exporters have to face the problem of almost all domestic market prices, including wages going up, which erode their profit margins, sometimes driving them to bankruptcy. Further, Sri Lanka’s competitors keep on adjusting their exchange rates which make our real effective exchange rates uncompetitive. One must ask the question why countries like China continue to keep their currency undervalued. Yet, the exchange rate is a holy cow in Sri Lanka. Adjustments could have serious implications not only for domestic consumer prices but also the government’s fiscal management. Removal of a cancer is often painful but if managed properly by taking care of the side effects, it could prove to be life-savings. The point is that, an exchange rate adjustment (devaluation is a dirty word) must be combined with

affirmative action to cushion the impact on segments of the population who need temporary relief. Consumer protection is a major concern expressed in the Ten-Point Agreement.

The second cliff is the Government Budget. We are spending more than we collect in terms of revenue. As a result, we keep on borrowing, pre-empting resources of the private sector, depriving the country of higher returns to the national economy. Far worse, we keep on increasing the public debt, servicing of which alone last year was higher than the revenue we collected. Revenue collection, as a percentage of GDP has come down from over 20% a few years ago to less than 12% last year. Worse still, over 80% of that revenue is collected from consumers.

The new government, therefore, has a fundamental challenge of dealing with the two cliffs. All the other challenges, though related, are peripheral.

### ***Infrastructure***

No modern economy could function without a solid infrastructure base provided by power and energy, irrigation facilities, telecom, ports and highways. That is why in the early stages of development, countries give priority attention to the development of these facilities. In developed economies these facilities have developed over a long period of time while new investments only yield incremental benefits. They are also built and sustained through mostly private investment.

In developing countries, it is the governments that provide the major share of investment; for two reasons. Firstly, there are constraints emerging from the low capital base of the private sector, and the long gestation periods involved in receiving income returns. Secondly, governments find it difficult, if left entirely to the private sector, to maintain an output pricing system that promotes industry as well as one that is not too heavy on direct consumers. These constraints get reduced whenever an element of competition is introduced.

Many infrastructure facilities, due mostly to the size of investment involved, assume the form of natural monopolies. This was the case with Sri Lanka Telecom in the past, when there was a need for heavy and widespread infrastructure connections. The advent of mobile phone technology has altered that situation, infusing thereby significant competition within the sector, and reducing in the process not only costs of service but also waiting time for connectivity.

A key issue in Sri Lanka's infrastructure development demonstrated recently in the case of the highways, harbours and airports, is not only the size of investment but also appropriate project selection, technology and location. Unfortunately, due to the capital constraint we are often driven by the sources of investment which may not be the most effective and cheapest. These effects could be mitigated only through a system of planning that determines project priorities and other aspects that enhance their value to the country.

Infrastructure development must take into account forward and backward linkages. A harbour, for instance, could bring in tremendous benefits, not only in the form of earnings from ships that call over for port facilities but also from facilitation of exports and reduced-cost imports. Exports have backward linkages to domestic producers and forward linkages to foreign buyers. It is the same in the case of imports, where more efficient handling of goods could make them cheaper for the consumers. The effect on producers is an extremely important issue that can be dealt with only through effective planning, not only at the project but also at sectoral and macroeconomic levels.

The National Planning Department had acquired a wealth of experience in infrastructure planning which was at the heart of its medium-term Public Investment Program exercise, providing valuable information for the Annual Budget. The planning exercise usually commenced with an analysis of the macroeconomic framework, leading to the determination of sectoral and project priorities.

The experience of many countries, starting with Ireland's Shannon initiative in the 1960s, indicates an approach to deal with infrastructure issues based on special economic zones. It was the Shannon experience that prompted Sri Lanka to set up the Katunayake and Biyagama export processing zones under the purview of the Greater Colombo Economic Commission, the predecessor of BOI.

The UNF Five-Point Plan proposes to set up 45 Economic Development Mega Zones. It says that "the Government will establish Economic Development Mega Zones. These zones will be provided with infrastructure facilities and services on par with similar units in South East Asia. This will enable the creation of well-paid jobs by attracting investments, especially direct foreign investments to make us globally competitive in manufacturing services, technology, logistics, agriculture, fisheries and tourism. There will also be schemes to develop the public infrastructure such as schools and hospitals."

There are lessons to be learnt not only from "units in South East Asia". Even rich countries like Saudi Arabia and Iran have established Special Economic Zones. The best known are in Russia. We could learn not only from the success stories but also from failures. Shannon struggled hard for decades to put things right. Russian authorities have indicated willingness in the past to pass on their experiences to us.

A fundamental problem the government will have to address in setting up special economic zones is not only how to deal with intra-institutional structures and systems of management but also interinstitutional relationships, particularly those involving regional authorities. What is the role of provincial councils, district and divisional secretariats, local authorities and regional offices of government departments in running the special economic zones, and which authorities will coordinate all their activities? The second issue, equally important, is that of public service management capacity, which though very challenging, could be dealt with through appropriate training programs.

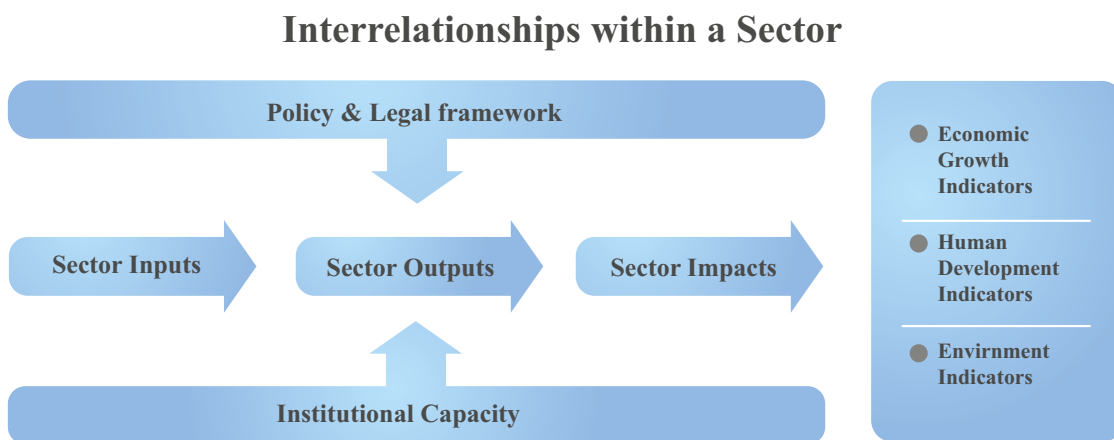
### ***Commodities and Services***

This pillar draws attention to the all-important sectors dealing with the production of goods and services. The Five-Point Plan draws attention to the role of “23 Agricultural Development Mega Zones, 10 Development Mega Zones for Fisheries and Tourism Development Mega Zones” which, if effectively implemented, could make a significant contribution to the development of these sectors. That contribution, however, will depend not only on intra-sectoral management but also coordination with the other sectors, as well as macroeconomic policies. In short, there should be a sectoral planning approach with intersectoral coordination, applying the best principles of MfDR, as explained in Diagram 3.

The diagram indicates the interrelationships within a sector, which should be managed to yield the desired impacts. Sector inputs are the resources required to deliver sector outputs and eventually sector impacts. Sector inputs are typically:

- human resources, particularly skilled resources;
- technology such as equipment and work processes; and
- finance, both public and private.

**Diagram 3**



These inputs, as well as the outputs and impacts are significantly influenced by the policy and legal framework, and by the organizational and institutional framework which manages the sector.

Sector outputs are tangible deliverables. They are the physical goods and services produced by public or private sector institutions. Impacts are the effects of those goods and services. Thus, new school buildings (project outputs) could provide new educational facilities and in turn the benefits of education (impacts)



Policy and legal framework relate to decisions taken by the government with regard to the promotion, reduction or discontinuance of activity and the rules, regulations and procedures for approval connected with such activity. The policy and legal framework, therefore, creates an environment that substantially influences the availability of inputs, the efficient production of outputs, and the significance of the expected impact. Policies can make dramatic changes to inputs such as the availability of technology or private sector investment. They can also change the demand-supply situation of sector outputs.

Institutional capacity refers to the capacity of public, private and community-based institutions (NGOs) to support and promote the development, progress, and social well-being of the people they serve. Given available inputs such as financial, technological and human resources, the concerned institution must be capable of efficiently and effectively converting these into outputs. Institutional capacity is, therefore, managerial capacity – a prerequisite for achieving the quantity and quality of outputs in a sector. Once again, we are reminded of the capacity development need as a prerequisite to achieve the desired impact of government policies.

### ***Cross-Cutting Issues***

Cross-cutting issues are those which are common to all sectors such as those related to the environment, women's position in society, poverty of the disadvantaged, as well as the technology deficit.

The Five-Point Plan recognizes the need to strengthen environment management by proposing an Act for Sustainable Development to be passed in Parliament, preparation of a geological plan, setting guidelines for town and city planning as well as designating protected zones and reservations.

The National Environment Authority has adopted a plethora of rules, regulations, procedures and guidelines to be followed, which includes mandatory environmental impact assessment of projects. Yet, most of these provisions are implemented in the breach. There are two problems; lack of knowledge of the provisions, mostly by government authorities and lack of will to enforce them, very often due to corruption. It is hoped that the proposed legislation will close the loopholes. There is also a need to educate the public to ensure that environment protection measures are followed by all, in particular by businessmen and to report to designated authorities observed breaches. The authorities ranging from central government ministries and departments to regional institutions such as the district/divisional secretariats, provincial councils and local authorities must be held accountable for implementation of government policy. NGOs have played a big role in the past with regard to environment protection. They must be encouraged to do so with greater vigour.

Gender issues extend far beyond and deeper than what the UNF Plan recognizes. The Plan refers to the problems faced by rural women due to indebtedness. As already mentioned above in the section on 'Equity', issues relating to the position of women are of a historical-structural nature which should be handled through a concerted long-term effort. While many piecemeal isolated interventions have been made on

and off during the last few years to tackle some of the problems, there is a need to adopt a planned approach, for which a central authority (ministry/department) with power to engage other agencies of the government in a coordinated effort is required. This is an area in which the outcomes and impact of public policy and interventions are far more important than activities and outputs. A vital prerequisite is a well-trained competent staff which could, at least, interact gainfully with the academic and research institutes that are generating useful knowledge.

If Sri Lanka is to get out of what is now described by economists as the ‘middle-income trap’ it must seek to get out of traditional methods of doing things by adopting more productive technology. This is needed in all sectors of the economy, not less in the plantation sector where a time bomb of youth expectations is clicking. Science and technology are connected and are so pervasive that a central authority such as a planning ministry or a planning council must have the power to engage all the other government institutions in a promotional dialogue and direction. Yet, discovery of new technology will be confined to academic discourse if there is no incentive for the business sector to adopt them. The best approach is to encourage business firms themselves to engage in research and adopt the findings, supported where necessary with special subsidies and other forms of financial support, particularly when disruptive technology has to be adopted.

Raising the level of productivity of the public service is also a cross-cutting issue, as it extends to all sectors of the economy. We will return to this theme in a subsequent section.

### ***Education***

The UNF Manifesto – Five-Point Plan, quite rightly, devotes a whole section to education, covering preschools, general education, technical and vocational education and university education, and draws attention to school facilities, curricular and teaching quality. Unfortunately, it ends up as a scattered wish list, providing some amusement at the end with a proposal to set up “A National Astrology Centre of international standards”, probably to make more accurate forecasts of presidential election results.

The education sector, more than any other, has benefitted from a large number of very valuable reports, mostly financed by donor agencies. Unfortunately, most of the recommendations, in the best instance, have been implemented piecemeal, creating more problems due to lack of coordination and poor-quality administration. What is important is to ask the fundamental question, as depicted in Diagram 3, what is the impact you wish to have from investing in education, overall and by subsector? The problem is not just a case of raising the investment level to 6% of GDP (as suggested in the Ten-Point Agreement) but determining for what purpose and how? Then you work backwards to determine outputs (school buildings, water supply, teacher training, etc.) and inputs (financial, human resources, etc.) taking into account and where necessary, adjusting the policy and legal framework and consonant institutional framework.

The education sector needs an effective planning approach, a principal element being administrative capacity and teaching quality improvement, based on the best principles of recruitment, deployment, training, performance appraisal and reward.

### ***Health***

There are 18 suggestions in the Five-Point Plan for improvement of the health sector, which appear to be disjointed. It is not clear why we need a National Health Services Authority when we have a full-fledged Ministry. The fundamental problem with the government-managed health sector is that it has become too unwieldy. To begin with, there is no Health Management Information System. There is no coordinated approach to policy formulation and no mechanism for monitoring and impact assessment of the plethora of health interventions. The government-administered health service sector covering promotion, prevention, cure and rehabilitation must be coordinated with a system of information flows that covers the entire country. The Health Ministry must determine national health policy, providing guidelines for the devolved health services handled by the Provincial Councils. There must be a system of constant interaction between ‘the Center and the Periphery’ based on IT facilities. The fundamental problem with the health sector is poor management (not just raising the “allocation of the GDP for the Health sector to 3 percent”) as envisaged in the Ten-Point Agreement. Better management requires not only a better organizational structure but also a huge managerial capacity-building program, driven by leadership at the top.

## **4. The Foundation - Institutions of Government**

The foundation of good governance for the development effort is provided by the accountability and institutional framework. Accountability will be facilitated further by the nine Commissions, which will be enhanced, if adopted, by the legal framework of the RTI Act. Operational efficiency, however, will depend on the effectiveness of the institutions of governance. It is well known that the Cabinet’s size, structure and composition are vital factors that affect the leadership role of the government in the development effort. The new Cabinet has been sworn in. Whatever views one has about it is of little value at this stage as it is a *fait accompli*. What is important is to think about how to make it perform effectively and efficiently. Much depends on the organizational framework and productivity of the public service. In the ultimate analysis, the public service becomes the custodian of good governance. As such it could mitigate the damage of arbitrary politics.

### **• Planning Council**

In view of the complicated decision-making process associated with the ‘paradigm of development’ and the required coordinated approach, the Cabinet of Ministers must have the benefit of advice from a group of professionals drawn from state institutions, private sector and civil society organizations. Members of the National Planning Council should comprise inter alia ex officio members, renowned academics, researchers and representatives of various chambers of commerce and industry, as

well as professional associations. There should be regular meetings, at least, once a month, chaired by no other person than the Prime Minister, himself. The Council should be serviced by a Planning Secretariat, headed by a renowned economist. The first Planning Council under the late S.W.R.D. Bandaranaike was serviced by a Secretariat headed by the late Dr. Gamani Corea. The Secretariat was later converted into a Planning Department, which finally came under the Ministry of Planning, with Dr. Corea as Secretary.

The functions of the new Planning Secretariat could be performed by the present National Planning Department, which should, however, be strengthened through a thorough program of internal capacity building and co-option of competent staff from other organizations.

### • **Provincial Councils and Local Government**

Before we enter into an analysis of the role of the public service, it is important to consider how to enhance the contribution of the regional bodies - the provincial councils and the local authorities - to good governance and development. The 13<sup>th</sup> Amendment defines the role and functions of the provincial councils, similarly certain functions have been devolved to the local authorities. A principal question is whether they should operate in total isolation from the development perspective, tasks, and functions of the central government, represented regionally by the district and divisional secretaries, or in consonance, of course without harming their legal rights to decision-making and management.

If there is to be a partnership for development, it has to be based on a solid understanding of each other's role and constant dialogue. The instrument for this approach is what is called a '*centre-periphery contract*', which has been tried and tested in some Asian countries, providing lessons of experience, indicating both positive and negative outcomes. The Contract must be based on the outcome of a consultative process with the people, engaging them not only in the decision-making process but also in the implementation. As a result, the people will learn not only about the needs and opportunities but also about the constraints that will have to be addressed through a time-bound program which will include a gradual resource mobilization and allocation process, including demarcation of functional responsibilities. The mechanism for constant dialogue and consultation between the centre and the periphery needs to be established by an arrangement whereby the cabinet of ministers meets the provincial council members, at least quarterly, to address their minds to issues based on a solid agenda and position papers. Much will depend, however, on the managerial capacity of the public servants who serve both the central government and the provincial councils.

### • **Law and Order and Defence**

This segment was included for comprehensiveness, as no development could take place without both internal security and defence against external threats. While we have no qualifications to make any worthwhile suggestions regarding this sector, it

is perhaps worthwhile noting the ever-growing sophistication of crime. This was highlighted recently in the case of the financial crimes investigations for which our defence establishments, particularly the Police, were not equipped to handle. This appears to be an area of urgent capacity building, for which foreign expertise would have to be acquired, where necessary, with adequate allocation of funds from the government budget.

### • Foreign Service

The Foreign Service, it is well known, has also a development role to play by creating conducive political relations with Sri Lanka's development partners. To do so, the Foreign Service has to recruit competent personnel and assign them responsibilities using professional yardsticks. Basically, it must have the competence to identify opportunities, challenges and threats posed by the behavior of major global players to Sri Lanka's interests. This could be done only through a process of continuous collection and analysis of information about the behavior of these players. It involves a thorough understanding of the role of the U.S., the European Union, China, Russia, India, and Japan, in the international arena and the response of other countries. Ad hoc collection of data and compiling of hurried reports is of little value.

This is what was expected of the Lakshman Kadirgamar Institute, which, however, is facing a resource constraint, more than financial, a manpower deficit. Instead of trying to recruit and maintain a large number of experts under its wings, the Institute must adopt a system of sub-contracting assignments of continuous research to outside researchers, based on policy needs and guidelines. The Institute must, however, recruit and train a small co-staff that could liaise with the external researchers, do quality control and disseminate information, appropriately to both government and private sector agencies that could benefit from such research output.

### • The Public Service

There is a common perception that the Sri Lanka public service is too large, unwieldy, politically controlled, inefficient and even offensive. Generalizations, we know are not always true, and could be misleading and even dangerous. Some pockets of excellence have emerged in recent years within the public service which challenges the common perception. Today, you can get a passport in one day, provided you have all the documents in hand. The Registration of Persons Office, the Motor Traffic Department and a number of district and divisional secretariats operate equally well. Yet there are stories of long delays, cumbersome procedures, harassment by officials and even solicitation of bribes in a number of other places. The worst offenders seem to be those institutions, in particular, local authorities that have to be frequented by the poor and the lower middle class. The story which goes around is that in order to get anything done by the government, 'you need to know someone, who knows someone, often a politician, who can move the papers'. Worst still you need to grease the palm.

This is with regard to the service delivery and regulatory functions of the government. The Ministries of Public Administration and Public Service Reforms, as well as, various ministries, departments, and authorities are quite aware of these problems and a series of attempts, unfortunately *ad hoc*, have been made and continue to be made to address the issues concerned. However, the role of the public service does not end with the service delivery and regulatory functions. Equally or far more important are the development functions, which indeed subsumes them.

## 5. The Public Service

### • The Development Role

This does not mean that the government should produce all the goods and services, like what was attempted and failed miserably in the old Soviet Union, China and Eastern Europe. Only Cuba and North Korea are still following that path at high economic and social costs. The development role of the public service is to basically facilitate, as well as regulate, the role of the private sector. The regulatory function is often misunderstood as one of control. It should be there to protect property rights and ensure a 'level playing field' for competition among business entities; that is, avoid corrosive monopoly practices. The strength of capitalism lies in competition. It is the mechanism that induces innovative practices that result in better-quality and cheaper products and services from which society as a whole benefits.

The mechanism through which the development function is performed by a government is policy formulation and, in the context of a developing country such as ours, through a process of planning, implementation, evaluation and feedback. It should be obvious, however, that the regulatory and service delivery functions too have to come into play and perform a crucial supportive role. The public service must be well equipped to perform these functions if there is to be inclusive development. This is the reason why the National Planning Department (not the ministry in charge of public administration) took the initiative in establishing the well-known Wanasinghe Committee of Administrative Reforms in 1986. The Committee, we must remind ourselves, presented a holistic picture of the issues involved with recommendations for their resolution through a well-coordinated approach.

Yet, this is exactly what all governments failed to do. Even though several attempts were made to deal with issues identified by the Wanasinghe Committee by appointing various Task Forces, Councils, Committees, Secretariats, etc., the *ad hoc* approaches created more problems than solving them. One fundamental problem was that the recommendations involved structural changes in the administrative system, some of which were quite disruptive of the status quo and promised only long-term benefits. Governments which were geared to meeting short-term objectives were not prepared to take measures that would yield benefits only in the long run.

When the Wanasinghe Committee advocated a comprehensive approach, it did not mean the simultaneous implementation of all the reform measures. It advocated

that the reforms be set in motion within a system of priorities. This meant giving precedence to measures that would be catalytic in their effects, paving the way for the progressive introduction of complementary measures.

While the approach to reforms was to be conceptual and holistic, with a clear definition of concrete outcomes, both Wanasinghe's recommendations and experience indicate a strong need for acceptance of reforms by all the stakeholders - the political decision-makers, public servants, as well as the business community and the general public. This requires that while the social benefits are clear and appreciated, stakeholders also see benefits that could accrue to them individually. For instance, public servants must have the motivation to participate actively in the reform process through opportunities for personal gain. This is usually engendered through a performance appraisal and reward system. These rewards need not necessarily be pecuniary; they could be in the form of recognition for career advancement.

An equally important third condition for success is the availability of an organizational structure that is conducive to the introduction and implementation of reforms. This involves administrative leadership, effective delegation of functions, with clear-cut definitions of responsibilities within time-bound programs, allocation of necessary resources (financial, human), as well as systems of information flow, where necessary, for progress monitoring and course correction. The most critical factor among all these is leadership.

#### • Leadership

Leadership qualities have to be displayed at all levels of the administrative hierarchy that is charged with the responsibilities of introducing reforms. Qualities of leadership emerge from knowledge, self-motivation and ability to motivate followers. Thus, a primary function of the reform process is to instill knowledge in those who have to provide the necessary leadership. It is a cardinal mistake to expect administrators to simply follow circulars issued by concerned government authorities when the need is to exercise knowledge and conceptual skills. Secretaries of ministries, as well as heads of departments nurtured in the old system of governance cannot be expected to promote innovation without new knowledge and motivation. Thus, the administrative reform process must start at the top.

There must be a system through which secretaries and heads of departments have the opportunity of upgrading their knowledge in a dynamic global setting. In some countries like Singapore, Malaysia and South Korea, secretaries and heads of departments are provided with facilities for participating in short-term training programs of their choice. In Sri Lanka, we had a cost-effective system of upgrading and sharing knowledge in the 1980s through frequent (weekly) discussions at the Committee of Development Secretaries, chaired by the Secretary to the Cabinet. He was assisted in the task by the Department of National Planning through the preparation of knowledge-generating agenda and discussion papers. This is a system that will have to be revived and utilized effectively if the government is to earnestly promote system-wide administrative reforms. It is also imperative for effective coordination of policy, implementation, progress monitoring and course correction.

## • **The Role of Secretaries and Heads of Departments**

There is, however, a fundamental condition for secretaries and heads of departments to exercise leadership qualities. They must have the time to think. If they are totally engrossed in routine operational detail, without proper delegation of functions they will not have the time to engage in innovative thinking. It is important to examine the functions of secretaries and eliminate the need to deal with files which could be easily handled by other senior officers. This is a matter which needs the urgent attention of the Ministry of Public Administration.

One of the primary causes of the lack of time, an increasing phenomenon in recent years, is the proliferation of mostly unnecessary but invariably unplanned large meetings, which secretaries could avoid without loss. They could also reduce the number of meetings with their own staff if they learn to use IT facilities, particularly e-mail and Skype. The Ministry of Public Administration should do a time-use study and set out guidelines for the conduct of meetings.

The success of the Committee of Development Secretaries was due mostly to the leadership provided by the Cabinet Secretary and the technical service provided by the Department of National Planning in preparing a meaningful agenda and follow-up of decisions. In the current context, the leadership will have to come from either the Secretary to the President, the Secretary to Cabinet or the Secretary to the Treasury, assisted by a strong secretariat.

## • **Knowledge Sharing**

A viable alternative to the Committee of Development Secretaries, particularly in view of the large number of secretaries today, would be a system of quarterly retreats, at least half-yearly retreats, which will bring together all secretaries, including chief secretaries to deliberate under a well-structured agenda. To enrich the discussion and to promote “out of the box” thinking, appropriate academics and professionals, including from the private sector, could be invited to participate. There should be no protocol, chief guests, keynote speakers or lighting of oil lamps. In short, the proceedings should be strictly workshop style. The best results could be obtained when position papers (learning modules) are distributed, well in advance, among the participants. This approach dispenses with the need for the traditional lecturer. The emphasis will be on interactive learning through group discussions and exercises, a method that has been proved very effective at the Postgraduate Institute of Management, in the case of learning programs for top-level executives.

## • **Second-Tier Leadership**

The Wanasinghe Committee considered it imperative to develop leadership qualities of second-tier officers who are in the queue for promotion as secretaries of ministries. The National Administrative Reforms Committee, chaired by the former Secretary to the President discussed and approved in principle a short-term program of training to upgrade leadership qualities of officers in class I and the special grade. Participants



in the training program were to be selected through a very elaborate process which would include psychometric tests. At the end of an intensive course, based on learning modules, group interaction sessions, role play and problem-solving exercises, the best performers were to be provided with an opportunity to obtain wider exposure to contemporary knowledge, through short visits to reputed international organizations such as the World Bank Institute, the Kennedy Center, Brooklyn Institute, Lee Kwan Yew Institute in Singapore, as well as the Asian Institute of Management and the Asian Development Bank in Manila.

### • **Management Reform Cells (MRCs)**

Leadership training at the top level of the administrative structure has to be reinforced by appropriate training and motivation of ‘followers’ at the bottom layers of the ‘pyramid’. There are currently a large number of training programs for public servants. They need to be reviewed and assessed to determine their effectiveness. The litmus test is the post-training improvement of productivity. To achieve this objective, training should be accompanied by a system of effective performance management, which would include a rational performance appraisal and reward system.

One of the most important recommendations considered by the now-defunct Administrative Reforms Committee was the establishment of Management Reform Cells in all government institutions that would function under the head of the institution and be serviced by a trained Chief Innovation Officer (CIO). As usual, there was no follow-up - the bane of government in Sri Lanka.

## **6. Conclusion**

This paper makes a plea for (i) a holistic view of the development problems facing the country; (ii) formulation of a collective vision to march forward; (iii) implementation of policies through a coordinated approach; (iv) employment of the best techniques of national planning led by a National Planning Council; (v) laying a solid foundation for development intervention based on the principles of good governance; and (vi) developing a highly competent public service.

Sri Lanka’s experience is that what has been missing is not wisdom but political will and discipline.