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▶ Assessment of the Key Bottlenecks for Private Sector Investments in the Northern Province

March 2020



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in the Northern Province**

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Assessment of the key bottlenecks for private sector investments in the Northern Province
Development

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List of Abbreviations

ADB	- Asian Development Bank
BOI	- Board of Investment
BPO	- Business Process Outsourcing
CAGR	- Compound Annual Growth Rate
CBSL	- Central Bank of Sri Lanka
CCC	- Ceylon Chamber of Commerce
DCS	- Department of Census and Statistics
DDC	- District Development Committee
DFAT	- Department of Foreign Affairs and Trade
EY	- Ernst & Young
FDI	- Foreign Direct Investments
GDP	- Gross Domestic Product
GOSL	- Government of Sri Lanka
ILO	- International Labour Organization
IUCN	- International Union for Conservation of Nature
KII	- Key Informative Interviews
LEED	- Local Empowerment through Economic Development
LKR	- Sri Lankan Rupees
LTTE	- Liberation Tigers of Tamil Eelam
MCC	- Millennium Challenge Corporation
MSME	- Micro, Small and Medium sized Enterprises
NARA	- The National Aquatic Resources Research and Development Agency
NAQDA	- National Aquaculture Development Authority of Sri Lanka
NBT	- Nation Building Tax
PAL	- Port and Airport Development Levy
REDI	- Regional Economic Development Initiative
RMTF	- Road Maintenance Trust Fund
SME	- Small and Medium sized Enterprises
YBSL	- Youth Business Sri Lanka
UN	- United Nations
VAT	- Value Added Tax



Executive Summary

Supported by the Department of Foreign Affairs and Trade (DFAT) of Australia and the Government of Norway, the ILO and its constituents (government, employers and workers' organizations) have been implementing the Local Empowerment through Economic Development (LEED) project since 2011 in the Northern Province of Sri Lanka. The LEED+ project builds upon the successes of the LEED Project with the focus continuing to be on contributing to a more inclusive and equitable post conflict recovery and development. Accordingly, the development of private sector, local Small and Medium sized Enterprises (SMEs) and cooperatives is the key strategy of the project, aimed to support economic re-generation and poverty reduction. To achieve this priority, LEED+ adopts a market systems development approach to help the local economy become more conducive and investment-friendly for the private sector. The project has taken a sectoral approach as an entry point to develop the local economy – food processing is the broad sector which includes both agricultural and fisheries value chains. Six value chains namely ground nut, coconut, passion fruit under agriculture, and prawns, mud crab and sea cucumber under fisheries have been primarily selected to render project support.

In November 2019, Ernst & Young (EY) was commissioned to conduct an assessment on the key bottlenecks for private sector investments in the Northern Province in the agriculture and fisheries sectors, through the lens of the six value chains which the project supports. Accordingly, EY identified and consulted key stakeholders representing both the demand and supply sides of the value chains. They provided key insights into the prevailing challenges and obstacles in the Northern Province, facilitating the researchers in forming their views.

According to the findings, the main bottleneck to private sector investment in the Northern Province was the difficulty of obtaining suitable land to commence business operations. This was common across both agriculture and fisheries sectors and was due to multiple reasons including competing claims of ownership over land, secondary occupation of land, scarcity of suitable land, complicated approval processes in acquiring land and the undue influence exerted by local politicians and community leaders when obtaining land.

During the study, it was evident that the difference in language and culture acts as a bottleneck when attracting new investments to the Northern Province. Owing to decades of oppression and segregation from the rest of the country due to the war, the people in the North tend to be more cautious and risk averse by nature, in particular

towards outsiders who show signs of moving into the region. Efforts for effective communication and reconciliation are deemed to be difficult due to the difference in language spoken in the region. This has led to resistance from the local community towards new projects and investments introduced to the region. Cultural beliefs play a major role in selecting jobs in the North due to the strong beliefs attached to the caste system. However, it was identified that the younger generation could be enticed to join the agriculture and fisheries sectors by moving away from the traditional methods currently practiced and infusing technology into the industry instead.

Another key bottleneck identified was the complicated and extensive approval and licensing process required in order to commence business operations, primarily in the fisheries and processed food sectors. The approval process could take anywhere from six months to five years. This is primarily dependent on the time taken to acquire suitable land.

Though, 5.6 per cent of the population is unemployed, many investors in the North identified the finding of skilled labour as a bottleneck. Further, it is expensive to hire skilled labour from other provinces as the investors have to pay a premium for their relocation. For large scale technology-based agriculture and fisheries businesses, skilled labour is essential and finding suitable labour was a significant bottleneck identified during stakeholder interviews. However, it was evident that unskilled labour is available in the region and the investors would have to provide the required training and technical assistance in order to deploy them in projects.

As prevalent across the country, poor access to finance and financial illiteracy among the people in the North were identified as key issues by various stakeholders during the discussions. Owing to the high levels of poverty in the region, the majority of the population in the north do not have money to invest and only have enough for daily sustenance. As such, they need financing for new ventures or to expand existing operations. However, most communities in the North face a challenge in terms of accessing affordable finance as banks and lending institutions look for collateral when granting loans and most farmers and fishermen find it difficult to produce such collateral. This has a knock-on effect on the businesses in the North which adopt an out-grower model, as the entire model is dependent on the produce passed on by the farmers and fishermen.

Apart from these main issues, inadequate infrastructure (roads, ports storing facilities, water management and drainage systems), inconsistent policies, obsolete laws and regulations, lack of business development services and support from the government, the influence of the middlemen are some of the other issues that impose obstacles and constraints to attract private sector investments to the North.

Table 1 - Significance of bottlenecks for private sector investments in the Northern Province

Bottlenecks	Significance
Difficulties in finding suitable land and obtaining approvals for land	Significant
Access to finance	Significant
Extensive and complicated approval and licensing process	Significant
Political resistance	Significant
Need for skills development and lack of skilled labour	Significant
Lack of business development services and support from the government	Moderate
Technology related constraints and the need for technology infusion	Moderate
Language, caste and cultural barriers	Moderate
Resistance by the local community and community leaders	Moderate
Poor infrastructure facilities	Moderate
Lack of developed market and supply chain mechanism (input, production, collection, processing, exporting)	Moderate
Financial illiteracy and indebtedness	Moderate
Climate change/weather patterns, natural disaster and seasonality impacts	Moderate
Inconsistency and frequent change in policies	Moderate
Poor water management and improper drainage system	Low
Exploitation of farmers by the middlemen mafia	Low
Need for further development of rural road network	Low
Lack of developed cold storage and transport facilities	Low
Insufficient port facilities	Low
Threat of theft, illegal fishing and malpractice	Low
Obsolete laws and regulations	Low
Frequent change of senior government officials	Low
Youth preferring to work in the service sector	Low

Note: The significance of each bottleneck has been categorized based on the response from stakeholders interviewed.

Significant	
Moderate	
Low	

Table 2 - Key social and economic indicators of the Northern Province

Area*						
Total Area	8,984 km ²	Land	8,568 km ²	Water	415 km ²	
Population - 2019*					Agricultural households - 2016/17**	
District	Families	Number of individuals		Total	Number of households	Household population
		Male	Female			
Jaffna	195,350	298,858	317,146	616,004	40,853	166,610
Kilinochchi	46,251	70,578	74,635	145,213	19,792	77,815
Mannar	47,599	78,978	84,352	163,330	7,663	31,451
Mullaitivu	44,706	67,382	70,240	137,622	20,851	80,093
Vavuniya	54,688	91,509	96,062	187,571	24,035	89,884
Total	388,594	607,305	642,435	1,249,740	113,194	445,853

Ethnicity -2012**		Religion - 2012**	
Sri Lankan Tamil	93.29%	Hindu	74.56%
Sri Lankan Moors	3.06%	Christian	19.27%
Sinhalese	3.05%	Muslim	3.22%
Indian Tamil	0.57%	Buddhist	2.87%
Other	0.03%	Other	0.09%

GDP in 2018 (at Current market prices)***				
Sector	Value (LKR Mn)		Contribution	
	Sri Lanka	Northern Province	Sri Lanka	Northern Province
Agriculture	1,137,170	91,266	7.87%	15.53%
Industry	3,900,369	125,756	26.99%	21.39%
Services	8,211,616	321,953	56.83%	54.77%

Northern Province Prosperity Index***				
Index***	Index Value		Provincial Rank	
	2017	2018	2017	2018
Provincial Prosperity Index	0.099	0.399	5	5
Economy and Business Climate Sub-Index	-0.107	0.473	8	7
Well-being of the People Sub-Index	0.300	0.397	3	4
Socio-Economic Infrastructure Sub-Index	0.168	0.328	4	3

Unemployment - 2018**				
Jaffna	Kilinochchi	Mannar	Mullaitivu	Vavuniya
6.7%	3.8%	7.1%	2.0%	4.2%

* Northern Provincial Council

** Department of Census and Statistics

*** Central bank of Sri Lanka

1

Context Setting

The International Labour Organization (ILO) and its constituents (government, employers and workers' organizations) have been implementing the **Local Empowerment through Economic Development** (LEED) project since 2011 in the Northern Province of Sri Lanka with support from the Department of Foreign Affairs and Trade (DFAT) of Australia and the Government of Norway. The LEED+ project builds on successes of the LEED Project with the focus continuing to be on contributing to a more inclusive and equitable post conflict recovery and development. The development of private sector, local Small and Medium Enterprises (SMEs) and Cooperatives is the key strategy of the project, aimed to support economic re-generation and poverty reduction. To achieve this priority, LEED+ adopts a market systems development approach to help the local economy become more conducive and investment-friendly for the private sector. The rationale behind this thought is that private sector investment is likely to create new jobs and at the same time, strengthen existing and new SMEs and Cooperatives along the supply chains making them more competitive.

The project has taken a sectoral approach as an entry point to develop the local economy—food processing is the broad sector considered, which includes both agricultural and fisheries value chains. Six value chains namely ground nut, coconut, passion fruits under agriculture and prawns, mud crab and sea cucumber under fisheries have been primarily selected to render project supports. Private sector partnership is the key strategy to develop these value chains.

During the value chain studies as well as the project's ongoing market exploration, it became evident that the private sector faces many challenges when investing in the North. While prolonged war was partly responsible for this situation, the government's efforts on post-war infrastructural improvement, socio-economic development and incentive schemes for investments do not seem to have generated enough traction to change the perception of large investors from other parts of the country. Therefore, an assessment to unfold the underlying reasons for such reluctance was considered to be critical. To this end, Ernst & Young (EY) was consulted to conduct an assessment on the key bottlenecks for private sector investments in the Northern Province in the agriculture and fishery sectors, through the lens of the six value chains the project supports.

Background of the Northern Province

Located in the north of Sri Lanka, the Northern Province is just 22 miles (35 km) from India. The province is surrounded by the Gulf of Mannar and Palk Bay to the west, Palk Strait to the north west, the Bay of Bengal to the north and east, and the Eastern, North Central and North Western provinces to the south. The province covers an area of 8,983.59 sq.km accounting for approximately 13.66 per cent of the total area of the island. This region has a land cover of 8,568.44 sq.km while the inland water areas cover 415.15 sq.km.

The province consists of five districts namely Jaffna, Kilinochchi, Mannar, Mullaitivu and Vavuniya. The province is divided into two distinct geographic areas which are the Jaffna peninsula and the Vanni. The Jaffna peninsula is irrigated by underground aquifers fed by wells, whereas the other districts (Vavuniya, Mullaitivu, Kilinochchi and Mannar districts) use irrigation tanks for cultivation.

According to the Northern Provincial Council, the total population of the Northern Province was 1,249,740 in 2018 with a Compound Annual Growth Rate (CAGR) of 1.02 per cent from 2014. As a percentage of the rest of the country, this accounts for 5.51 per cent of the total population. The male population in the province accounts for 48.6 per cent whilst the female population accounts for 51.4 per cent. The *Economic and Social Statistics of Sri Lanka* records the highest population in the province in the Jaffna district whereas the lowest population is in the Mullaitivu district. In general, the Northern Province has the lowest population density in the country with a density of only 136 people per sq.km (CBSL, 2019).

The majority of the population are Tamils who account for more than 90 per cent of the total population in the province. The Sinhalese population in the province is only 3 per cent. Hindus constitute 74.5 per cent of the population in the province while 19.3 per cent are Christians (DCS, 2015).

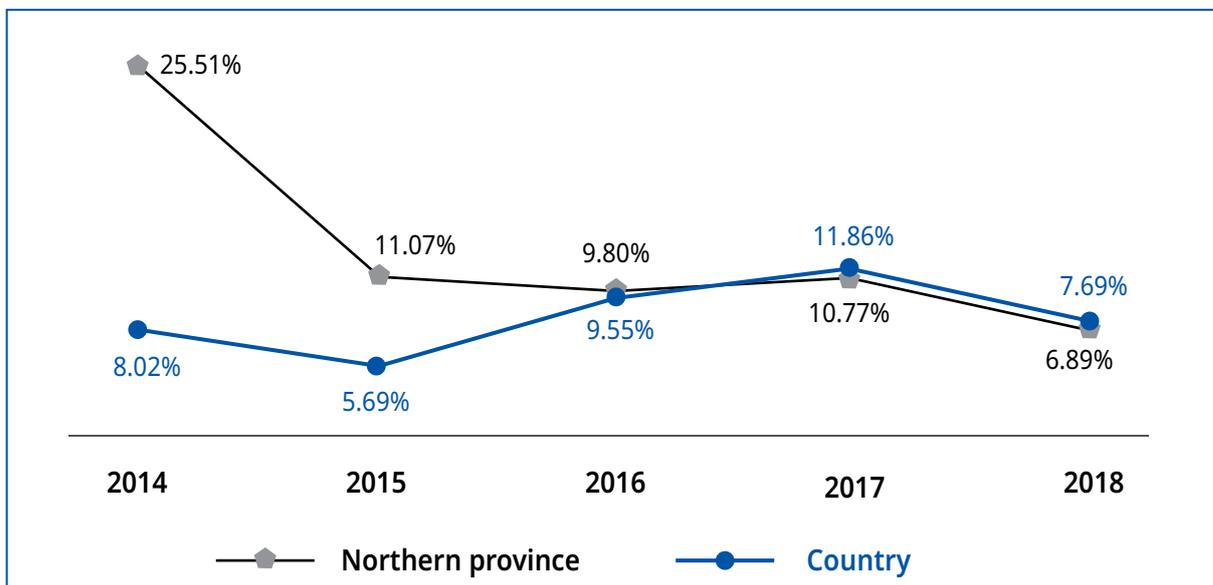
The Northern Province is home to 113,194 agricultural households (5.39 per cent of the total agricultural households in the country) with a population of 445,853 individuals (5.5 per cent of the total agricultural household population in the country). The Jaffna district accounts for the highest number of agricultural households and agricultural household population in the province. A report published in 2015 by the United Nations (UN) on Sri Lanka, estimated that there are 58,121 women headed households in the Northern Province (Jayasankar & Ganahewa, 2017).

Economic Climate in the Northern Province

The removal of the economic embargo on the north in 2009 made the free flow of goods, services and people a possibility in the province and between the rest of the country. This resulted in a price convergence, an influx of goods and services, and a stimulated economic growth.

The Gross Domestic Product (GDP) of the Northern Province grew at a faster rate than the rest of the country from 2013 to 2016, and then fell below the country average in 2017 and 2018. This could be attributed to conditions of drought which prevailed during 2016 and 2018. Statistics prior to 2017 may also be affected by the distortion created by the influx of the micro finance industry into the Northern Province in 2012 and the resultant steep growth during the period, as well as poor data collection in the Northern Province until 2016. The service sector accounts for the highest contribution to the provincial GDP (54.8 per cent) followed by the industry sector (21.4 per cent). The agriculture sector contributes only 15.5 per cent to the provincial GDP. However, the agriculture sector is the fastest growing sector in the region, and has been growing since 2015, at a much faster rate than the country average.

Figure 1 - GDP growth at current market prices



Source: Data from the Central Bank of Sri Lanka (<https://www.cbsl.gov.lk/en/statistics/statistical-tables/real-sector/national-accounts>). Analysis done by Ernst & Young.

The unemployment rate in the Northern Province as recorded in the Labour Force Survey was 5.6 per cent in 2018, while the national rate was 4.4 per cent (DCS, 2019). At the same time the Poverty Head Count Index of the province was 7.7 per cent while the national percentage was 4.1 per cent. The Household Income and Expenditure Survey of 2016 records the highest poverty levels in the country in the Kilinochchi and Mullaitivu districts, at 18.2 per cent and 12.7 per cent respectively, while Jaffna district ranked fifth with 7.7 per cent (DCS, 2018).

Despite the continuous growth witnessed in the north, social issues continue to impede the economic development of the province where out of the nine (09) provinces in Sri Lanka, in 2017 and 2018 the Northern Province was ranked 5th in the Provincial Prosperity Index and 7th in the 2018 Economy and Business Climate sub index. The Socio-Economic Infrastructure sub index improved (ranked 3rd) in 2018 in the Northern Province due to enhanced availability of electricity and ICT facilities as shown in

the Provincial Prosperity Indices of Sri Lanka (CBSL, 2014, 2015, 2016, 2017, 2018). According to the Economic Development Framework report of the CBSL, despite several post-war development initiatives being introduced in the north, many were identified as unsuccessful owing to poor coordination, flawed policies and a lack of a macroeconomic vision (CBSL, 2018).

Investment Climate in the Northern Province

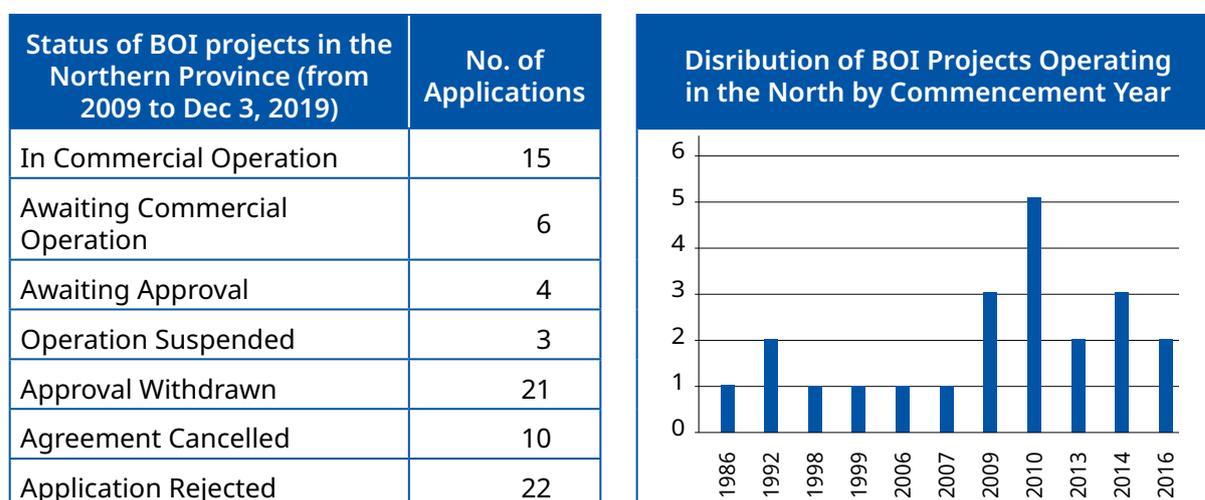
The Northern Province showed early signs of rapid economic recovery with the end of the civil conflict in 2009, an encouraging sign for investors. The traditional agriculture, fishing and commercial retail sector picked up speed, fueled by demand and inflows of foreign remittances. Post-war government initiatives such as the “Northern Spring (Uthuru Wasanthaya)” which mainly focused on aspects of security, resettlement and infrastructure also set the stage for new investments through the development of roads and uplifting transport systems; repairing and reconstructing irrigation systems; supplying of electricity, water and sanitation and the development of agriculture, livestock and inland fisheries among others (Ministry of Economic Development, 2010).

Encouraged by the potential and prospects on offer, several commercial-scale investments were funneled into the Northern Province through manufacturing, agribusiness, tourism, and other new sectors such as Business Process Outsourcing (BPO). National suppliers of agricultural equipment such as Browns Group and supermarket chains such as Cargills were among the first to venture into the territory. Property developers including diaspora investors such as Tilko Hotels; tourism projects from hotel chains such as Jetwing Hotels; garment factories such as Omega Line, MAS and Hidramani; and BPO projects by the John Keells Foundation were soon to follow. However, the current pace of new investments is not as fast as desired. Also, the declining economic growth in the region, and bottlenecks for private sector investments explained in section three of this report has resulted in lack lustre interest from the investment community.

Foreign investment coming into the Northern Province has been limited. Since its inception in January 1978 to November 2019, the Board of Investment (BOI) of Sri Lanka has received a total of 9,462 applications for investments in the country. However, among these, only 100 were investments to the Northern Province which is only 1 per cent of the total applications received. Of this, only 22 BOI approved projects are currently in operation in the Northern Province. Further, from 2009 to November

2019, the BOI received a total of 81 applications for investment in the Northern Province; however, only 15 of these BOI approved projects are currently in operation.

Figure 2 - Distribution of BOI projects in the Northern Province and their current status



Source: Board of Investment of Sri Lanka. Analysis done by Ernst & Young

In total, there have only been 10 BOI projects in the north in either the agriculture or fisheries sectors. The projects are quite diverse varying from food processing (seafood, vegetables and fruits), mud crab aquaculture, aqua farming and breeding hatcheries for sea cucumber, organic farming, value additions using modern bio technology, and the manufacture of fish meal for export. However, the approvals for these projects were either suspended, withdrawn or cancelled by the BOI and none of the ongoing projects are operational within these sectors in the north.

Our discussion with the BOI highlighted several reasons for the withdrawal of approvals and the cancellation of BOI agreements. A key reason identified was the difficulty in obtaining suitable land to commence business operations. A large extent of the land in the Northern Province belongs to the government. Thus, releasing these lands for private sector investors takes a considerable amount of time (even 3 to 5 years) as the approval process is extremely cumbersome and lengthy (issues in relation to land are further discussed under section 3.3.4). Further, the time allocated by the BOI to implement a project following the granting of approval is six months for both agricultural and fisheries sectors. However, owing to the delays faced in releasing of land, in most cases the investors are not able to stick to the time constraints of the BOI. Thus, the investment tends to fail at the very outset, even prior to implementation.

As per the BOI, difficulties of finding skilled labour has resulted in the winding up of BOI projects in the Northern Province. The reason for this was the tendency of the youth to follow abundantly available technical courses, such as accountancy and finance, instead of moving into the agriculture or fisheries industries. Moreover, they aspire to migrate or find employment overseas (issues in relation to skilled labour

is further discussed under section 3.4.1). Obtaining water was also highlighted as a growing concern in the Northern Province. Lack of water hinders both agricultural and fisheries sectors. The lack of proper irrigation systems and poor monitoring by government authorities further intensifies the problem (issues in relation to water and irrigation systems are further discussed under section 3.2.5).

Another reason highlighted was the lack of support from the government and the inconsistencies of the policy and tax framework. Owing to ambiguities, inconsistencies and duplications in policies, foreign investors become frustrated and leave Sri Lanka, a trend particularly evident in the Northern Province. Further, disputes of political parties intensify the problem as investors must approach several authorities to obtain a single approval. In addition, it must be noted that the BOI used to have the authority to grant tax holidays to encourage foreign investments to the Northern Province. However, at present the BOI does not have such authority and the granting of tax concessions is under the purview of the Inland Revenue Department (issues in relation to political and policy inconsistency is discussed under section 3.6.1).

Despite these hindrances, there are currently 3 projects in the fisheries sector (projects for sea cucumber culture, crab culture and fish meal production and exporting) in the process of obtaining approval from the BOI to commence operations in the north.

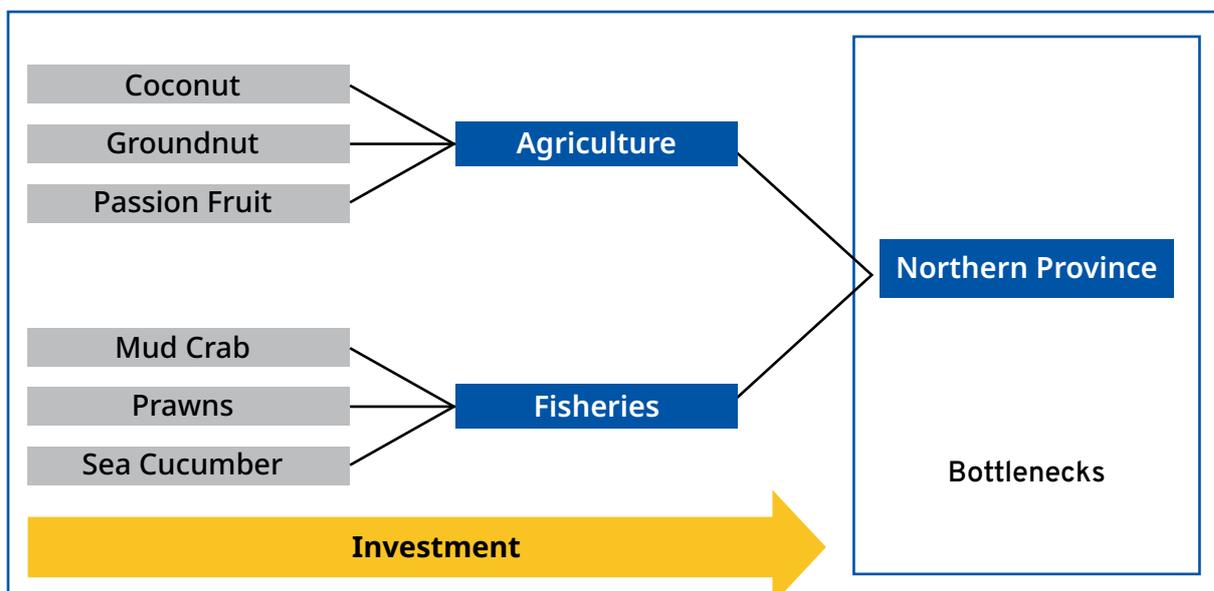
Business chambers in the north are also actively engaged in promotion initiatives. The Chamber of Commerce and Industry of Jaffna, and the Vavuniya District Chamber of Commerce, Industry and Agriculture are regional chambers that spearhead investment promotional activities in the region. The Ceylon Chamber of Commerce (CCC) also has focus in promoting investment activities in the north. Most notable is the Youth Business Sri Lanka (YBSL) entrepreneurship development programme, implemented through CCC-affiliated northern chambers. The chairman of the CCC board is also the chairman of the YBSL Board of Trustees. The CCC also maintains a database on the northern economy as part of its Regional Economic Development Initiative (REDI) and has facilitated several visits to the north by CCC member companies to pursue business opportunities.

2

Methodology

The assessment of the key bottlenecks for private sector investments in the Northern Province was conducted focusing on the agriculture and fisheries sectors, through the lens of six value chains that the LEED+ project supports.

Figure 3 - Sectors and value chains considered for the study



The study captured the perspectives of both the demand and supply side of the value chains. The demand side includes the Micro Small and Medium sized Enterprises (MSMEs) and private sector investors (including potential investors) while the supply side includes the entities/organizations who are supposed to facilitate a conducive investment climate for these investors. Accordingly, EY identified and consulted key stakeholders including government and public sector stakeholders, regulatory bodies of the agricultural sector, regulatory bodies of the fisheries sector, private sector stakeholders, sector associations/ cooperatives, societies, investors and MSMEs.

Strategized sampling was used to select government and public sector stakeholders, regulatory bodies from the agricultural and fisheries sectors and private sector stakeholders for the study. Representatives from sector associations/ cooperatives, societies, investors and MSMEs were selected on a random sampling basis. The list

of stakeholders consulted during the study is given in the Annexures (6.1 List of Stakeholders Interviewed).

Data and information for the study was gathered through Key Informative Interviews (KIIs) with the identified stakeholders. When conducting KIIs with government and public sector stakeholders, regulatory bodies of the agricultural and fisheries sectors and private sector stakeholders, the research team consulted both the head office located in Colombo and their extension offices in the Northern Province. KIIs with these stakeholders provided the researchers with key insights into the prevailing challenges and obstacles in the Northern Province and facilitated the analysis.

3

Key Bottlenecks for Private Sector Investments in the Northern Province

Currently, private investment is looked at as the key driver of economic growth in Sri Lanka, complimented by increased inflows of Foreign Direct Investments (FDIs). However, shortcomings in the investment climate have held back expansion of large businesses, growth of new business ventures, and the graduation of MSMEs, especially micro enterprises.

The Northern Province has always been at the top of the agenda for most policy reforms and strategic initiatives to increase the competitiveness of the Sri Lankan economy. However, the reforms undertaken haven't delivered the desired results in creating an enabling business environment. As a result, private sector investments to the Northern Province have been constrained by several bottlenecks which have stunted private sector expansion in the region.

In this study, these bottlenecks have been discussed under the broad headings of infrastructure, demography, socio-economic and political context, bureaucracy, business development services and policy environment.

3.1 Socio, Economic and Political Environment

3.1.1 Language and cultural barriers

Owing to decades of oppression and segregation from the rest of the country due to the war, the people in the north tend to be reserved and cautious by nature. Although the end of the civil conflict paved the way for reconnecting the Northern Province to the rest of the country, the level of interaction and exposure to other provinces has been poor. Therefore, at the moment reaching out to the resident population of the north tends to be sensitive, while building trust and confidence among them is fairly challenging. Additionally, the inherent cautiousness and suspicion among the people in the north towards outsiders, paves the way for politicians and other influential groups to assert their influence on the people and fulfill their personal agendas by creating unrest in the community. In these circumstances, proper communication is seen to be a vital element in building trust and confidence.

Although the Sinhala and Tamil languages have been cited as the two official national languages in the constitution, for years language parity has remained a challenge.

Communication and reconciliation are said to be difficult due to the difference in languages spoken, and the language issue continues to dampen economic development in the region.

The language barrier also creates a bottleneck for private sector investments to the north. Precisely communicating the intent, ideas and plans of investment, and educating the resident population on the potential benefits from these investments is a tedious task for outside investors. Hence, building trust and confidence is a slow and tricky process. Even though there has been some success, imparting technical knowledge and know-how to the community would be constrained by the prevailing language barrier. While English is considered to be the link language, proficiency in the language among the rural communities in the Northern Province tends to be weak and hence does not provide a solution to the problem.

During stakeholder interviews it was cited that there is a difference between cultures and beliefs between the Northern Province and the rest of the country. Cultural beliefs play a major role in the day to day lives of the people living in the north, and although not as significant as the language barrier, this creates a certain obstacle in attracting investments to the north. A strong belief in the indigenous caste system prevails even to this day and this also has an impact upon investments to the north.

A stakeholder interviewed mentioned that in general fishermen are considered to be of lower caste in society and are looked down upon among the population of the Northern Province. Similarly, a certain degree of discrimination is prevalent due to the indigenous caste system, and it inherently imposes barriers on the level of interaction with the labour force in the north. As an example, the construction sector in Jaffna, one of the thriving sectors in post-war reconstruction and development was negatively affected by a lack of masons, carpenters and workers of similar skill. This was due to a caste constraint that restricts entry into these occupations by persons of other castes. A particular incident highlighting this issue occurred when a large-scale garment manufacturer had to shift a new garment manufacturing plant from Jaffna to Kilinochchi partly due to the reluctance of young female workers to fill factory vacancies due to caste constraints. Moreover, the agriculture and the fisheries sectors are among the most vulnerable sectors to be affected by these beliefs, where, for example, certain jobs such as palmyrah farming (including toddy tapping, making sweets out of palmyrah fruits and stems, and producing handicrafts and decorations out of palmyrah leaves and stems) are reserved for people from a specific caste. Hence, investors looking to break ground in the Northern Province need to understand these sensitivities and adapt accordingly to ensure that their business models are aligned with the customs and traditions of the resident population so that the risk of resistance and failure is mitigated.

3.1.2 Resistance to change

People in the north are naturalized in their environment and their way of life to the extent that they don't seem to be interested in changing the status quo. Under these circumstances, an attempt to change their environment and normal way of life, can be looked at as a distrustful movement which could be sensitive enough to cause social unrest among communities.

Such resistance has been seen regarding new projects and investments coming into the region, and which were deemed to be disruptive by the resident population. Whilst there are several reasons for such resistance, the lack of trust and the negative perception towards outsiders displayed by the resident population in the north tend to be the underlying reasons for such confrontation. This was evidenced when an investor indicated his interest in setting up a sea cucumber culture farm in the Northern Province. Accordingly, the investor had all the resources including a FDI ready to commence business operations and was convinced that he could generate foreign exchange earnings of up to US\$ 7 million per year from the export of sea cucumber after the second year of operation. However, the investor could not gain the support and participation of the local community of the Northern Province despite many rounds of negotiations with the locals in the region. This was a challenge as the policy emphasizes that in order to gain access to water bodies in the Northern Province, foreign investors need to partner with the local community.

In another instance, investors were even compelled to withdraw their investments after obtaining all the required approvals and certifications to kick start the projects. This is highlighted in the case of an Australian investor who with the support of a Sri Lankan from the south attempted to invest in a venture for the export of mud crabs in Mannar. The investor, however, was forced to withdraw as a result of community unrest triggered by a local priest. The interviews with key stakeholders revealed that the foremost reason for this community unrest was the lack of trust in outside investors. In hindsight, the investors strongly believe that engaging with a local stakeholder from the region would have built trust and confidence among the community and would have paved the way for proceeding with their project. A key takeaway from this case for any potential investor is the importance of engaging with the residents in the north from the outset in order to gain their trust.

Another cause for resistance is the influence of local politicians and people in power, who play on the existing perceptions of the people to further their personal agendas.

3.1.3 Poor access to finance and financial illiteracy

Poor access to finance and financial illiteracy among the people in the north are key issues that impede entrepreneurship and economic progress. Whilst this tends to be a common issue among MSMEs across the country, it is particularly intense in the north given the levels of poverty and indebtedness in the region.

Owing to the high levels of poverty in the region, the majority of the population in the north are short of funds for investments, and only have enough money for their daily sustenance. As such, the residents in the north, especially the ones living in rural areas of the province, require financing facilities in order to start a new venture or expand their existing business operations. Post war, the people of the north relied on micro finance providers to fund their operations. Since 2012 many micro finance institutions began operating in the Northern Province granting loan facilities without adequate appraisals. Further, these loans were mainly provided to poor women with no source of income and with no collateral at exorbitant interest rates for consumption purposes which ultimately led to indebtedness. However, to curb this crisis, the Central Bank of Sri Lanka (CBSL) introduced a maximum rate of interest of 35 per cent per annum on unsecured micro loans granted by Licensed Micro Finance Companies. This has led to finance providers tightening their appraisal process and exercising great caution when lending while some finance providers have moved away from micro financing in the region. Presently, a majority of lending institutions expect collateral at the time of lending, which most farmers and fishermen find difficult to produce. The low bankability and lack of collateral forces these communities to borrow from informal sources who in turn charge much higher interest rates and tend to be unaffordable. This has now led to most communities in the north facing a challenge in terms of accessing affordable finance.

It is also understood that financial literacy in the north is considerably poor, especially among rural communities. This lack of financial literacy among farmer and fishing communities leads to poor financial management in terms of planning their borrowings and repaying debts. The inability to assess their own repayment capacity has in many instances caused these communities to fall short of their financial obligations and fall into a debt trap led by continuous borrowing, which has ultimately resulted in bankruptcy.

These factors in combination have also had an adverse effect on the commercial viability of investments in the north. Many medium and small-scale businesses operating in the agriculture and fisheries sectors in the north tend to adopt an out-grower model where close ties with the community farmers and fishermen are maintained. As part of the arrangement, the farmers and fishermen supply their produce to the businesses for further processing or export. Whilst these models have proven to be fruitful by creating value to stakeholders along the supply chain, the sustainability of such business models depend on the stability of the farmer and fishing communities and the consistent supply of quality goods. However, non-availability of adequate and timely credit and high interest rates tend to create a bottleneck for farmers when obtaining adequate financing facilities for their business activities. An example, is the Yal Uthpaththi programme initiated by the CBSL and Cargills chain of supermarkets where direct purchasing was done from the farmers of the Northern Province. Though initially successful, this programme was abandoned as the farmers supplying to Cargills did not find the programme attractive. This was due to Cargills purchasing the goods on 30-days credit which resulted in cashflow issues for the farmers. This resulted in the farmers needing to borrow to maintain their

working capital until payment was received from Cargills, a practice which became uneconomical owing to high interest rates and slim margins.

In most extreme cases, marginalized communities in rural areas that are connected to these out grower models, do not even have access to a formal lending institution and tend to be underserved or at times even unserved. Hence, sustaining their business and maintaining a steady supply of goods is a challenge for such farmer communities. In such instances, investors who depend on the out-grower model are unable to secure a steady supply of goods and the entire business model becomes vulnerable and is exposed to business risks. Accordingly, there have been instances of investors withdrawing from the region due to the collapse of their entire business model.

However, it was identified that a new Credit Act is being drafted to regulate the lenders and safeguard the financially illiterate population from further exploitation.

3.1.4 Theft and encroachment in the fisheries sector

The research team identified an issue of theft in the Northern Province which has resulted in investors being reluctant to embark upon ventures in the province, particularly in the fisheries sector.

A senior official of the Department of Fisheries and Aquatic Resources in Jaffna, stated that a group of local doctors had invested in a sea cucumber culture farm but were forced to wind up their business due to the local fishing communities stealing the sea cucumber close to harvest. The official further went on to state that the department or the law enforcement officials have no grounds to take any action against theft as the sea cucumber culture was conducted in open seas which is considered public property. Hence, it is necessary to employ security personnel around the clock in order to protect farms incurring additional costs as even a minimal two to three hours lapse close to the harvesting season would give enough room for thieves to capitalize.

The interviews with the senior official of the Department of Fisheries and Aquatic Resources in Jaffna revealed that the situation tends to intensify in the interior rural parts of the province. Accordingly, this was identified as an obstacle for investors looking to invest in open sea fisheries projects.

3.1.5 Political influence and resistance

The undue influence of politicians in the north was highlighted as a major obstacle for private sector investments in the north. Interestingly, this was highlighted by both the private sector players and public sector officials who were interviewed during the study.

Although the civil conflict concluded a decade ago, political tension between the north and the rest of the country has been prevailing for a while. This is even visible on occasion at the highest administration levels between the central government and the provincial council. As such, even if the central government attempts to launch initiatives

with the view of developing the northern economy, the provincial political groups in the north tend to express their unwillingness to cooperate, fueling political pressure in the region. There is a perception among people that local politicians in the north oppose social and economic development in order to maintain prevailing poverty and educational levels so that a political advantage can be gained through such vulnerable settings. In the exact words of a stakeholder “even if the central government shows a genuine interest, the provincial political groups in the north are not cooperating. The reason for that is, if these new projects make the life of the poor people better, it will not be easy for the politicians to manipulate them with false promises...”

Although not related to either the agriculture or fisheries sectors, a public sector official highlighted a case study where the negative influence of the provincial politicians created an obstacle for the private sector investing in the north. According to the official, a government institution had planned to set up a leather processing zone in the Northern Province. Although, cabinet approval had been granted to proceed, the project could not be launched due to the objection and resistance raised by the provincial politicians and ministers from the north, with the aim of fulfilling their personal agendas.

Another investor stated that the political influence and resistance varies with the size of the investment and larger projects tend to face severe resistance and undue influence from local politicians.

3.2 Infrastructure

3.2.1 Poor extended road connectivity and transportation facilities

With the ending of the conflict in the Northern Province in 2009, the government launched the programme, “Northern Spring” (Uthuru Wasanthaya), placing emphasis on improving the standards of economic infrastructure. Principal among these efforts are improving the standards of the existing roads and the development of new road networks and bridges, restoration of the vital rail link with the Jaffna peninsula, and access to the national electrical grid and telecommunication network.

The A9 is the most important national road that connects Kandy to Jaffna through several important regional centres outside the Northern Province such as Matale, Dambulla and Anuradhapura. Apart from the A9, the A32 which runs along the western coast from Mannar to Jaffna and A34 and A35 which connects Mullaitivu located on the eastern seaboard to the A9 at Paranthan and Mankulam respectively, are the other important regional roads. During the post-war rehabilitation era, the “Northern Spring” programme and the Asian Development Bank (ADB) funded Northern Road Connectivity Project, spearheaded the upgrading of the standards of these national roads in the Northern Province and bridged the north with the rest of the country. However, the national roads (A-Class Roads and B-Class Roads) account for less than 40 per cent of the total road network in the Northern Province.

Table 3 - Classification of the road network in the Northern Province

	Unit	Jaffna	Kilinochchi	Mullaitivu	Vavuniya	Mannar	Northern Province	
A - Class Road	Km	279.73	106.04	99.92	128.91	113.03	727.63	
B - Class Road	Km	218.46	53.63	101.83	57.71	91.28	522.91	
C- Class Road	Asphalt	Km	9.61	26.43	52.08	14.15	39.71	141.98
	Metal	Km	497.33	75.76	88.48	337.87	203.73	1,203.7
	Gravel	Km	35.30	195.29	246.43	41.58	57.41	576.01
	Concrete	Km	1.71	24.21	2.97	1.00	8.35	38.24
D- Class Road	Asphalt	Km	-	-	-	-	-	-
	Metal	Km	30.55	14.10	3.13	19.63	19.70	87.11
	Gravel	Km	14.50	19.98	13.92	13.77	5.80	67.97
	Concrete	Km	-	5.23	-	-	0.30	5.53
Total		589.00	361.00	407.00	428.00	335.00		

Source: Socio-Economic Assessment of the Conflict Affected Northern and Eastern Provinces, World Bank, (2018) ; Northern Provincial Council – Vital Statistics 2019.

The provincial road network in the Northern Province provides an important link between the national roads and town centres and rural agricultural production areas. These roads form an essential part in providing the rural-urban linkages within the province served by scheduled bus services. According to the Socio-Economic Assessment of the Conflict Affected Northern and Eastern Provinces (World Bank, 2018), it is estimated that of the 1,958.6 km of provincial roads, and 7,600 km of rural roads, only 20 to 25 per cent were in good condition after the conflict. Although focus has been pledged to restore the road networks, the lack of funds available for recovery and investment needs, particularly with regard to interior roads, transportation and communication networks constrains connectivity in the region.

Maintenance of roads has always been a concern for road agencies, mainly because of the inadequacy of maintenance financing. Although the Road Maintenance Trust Fund (RMTF) was established in the CBSL and began fully operating in 2007 to facilitate maintenance financing for the entire road network, its use is generally limited to the national road network. As a result, road maintenance, especially routine maintenance, is generally neglected by the local governments because of a shortage of funds. However periodic maintenance is carried out with the capital funds provided by provincial councils.

Currently, the condition of the secondary rural road network and transportation service in the north is fairly poor and in need of rehabilitation. Most roads in the Kilinochchi and Mullaitivu districts and interior roads in the other parts of the province are gravel roads. Metal and tarred roads in the Killinochchi and Mullaitivu Districts have deteriorated to such an extent that they have become gravel roads. In 2016, only 18 per

cent of the road network under the purview of the Road Development Department of the Northern Provincial Council were deemed to be in a good condition.

Table 4 - Status of road networks in the Northern Provinces and maintenance funding

Responsible Road Agency	Road Lengths by Class (km) under Provincial Control	Roads Rehabilitated 2011–2015 (km)	Road Condition (paved roads only)	Estimated Annual Maintenance Funds Needed to Keep Network in Current Condition
Road Development Department	C: 1,200 km D: 920 km Total: 2,120 km 40% unpaved	60.1 km (WB) 196.6 km (ADB) 46.5 km (ADB) Total: 375.3 km	Good: 18% Fair: 20% Poor: 62%	LKR 650 million

Source: Country Assistance Program Evaluation (CAPE) for Sri Lanka. ADB, (2016) – Linked Documents - Sector Assessment: Transport. ADB

Roads are the backbone of the nation’s transport system and provide a vital means of access and connectivity for the estimated 77.4 per cent of the population living in rural areas of the country as stated in the *Economic and Social Statistics of Sri Lanka* (CBSL, 2019). Roads also play an important role in integrating the country and facilitating economic growth. However, given the current circumstances in the Northern Province, the poor secondary roads network impedes connectivity and local economic development.

The poor road network that constrains connectivity also has an impact on women’s participation in the labour force. Currently, the female labour force participation rate in the Northern Province is only 22 per cent compared to 35 per cent at the national level. As at present many women cannot take up employment opportunities due to the need for extended travel and the extensive time it takes. Women stress the need for jobs within a reasonable distance of their homes, and the development of extended road networks could facilitate accessibility and a more conducive business environment.

3.2.2 Insufficient port facilities

There is a strong need for a functioning, developed port in the Northern Province as far as the export-oriented agricultural and fisheries exports are concerned owing to the perishable nature of the produce.

At present, the majority of the fisheries and agriculture produce exporters operate from the Colombo seaport and the Katunayake airport. The products from the north are supplied through middlemen to the exporters who are primarily located close to Colombo. The time and cost incurred in transporting these goods to Colombo adds on to the cost of production making the produce uncompetitive in the global market. This issue was brought up during discussions held with public sector officials, where a

case study highlighted the instance where the Ministry of Industry and Commerce had developed an industrial zone in Mannar, which is now more or less not operational as investors are not willing to set up their operations there. The key reason being the lack of port and logistic services in close proximity to the zone. The Economic Development Framework: For a Northern Province Master Plan has also identified the distance from metropolitan centres and the port as a key factor that limits the competitiveness of the province (CBSL, 2018).

To this end, the government that was in power during 2015 to 2019 planned to develop the Kankasanthurai (KKS) port into a commercial port with the assistance of the Indian government, but the project has not yet been initiated. During the KIIs with stakeholders, the research team found that with the change of the regime in Sri Lanka in 2019, the consensus among public sector stakeholders was that the KKS port will be developed with Indian assistance as India seeks to have a foothold in Sri Lanka to keep up with the continuous inflow of Chinese investments. However, this would take over three years for completion. Further, the Palali airport though unveiled as an international airport, is not yet fully developed and needs more investment to make it a fully-fledged international airport.

As such, in the current context, the Northern Province lacks the required air and seaports to attract export-oriented agriculture and fisheries sector investors to the region. However, the Ministry of Fisheries and Aquatic Resources Development has proposed several projects to develop harbours in the north to address this issue.

Table 5 - Proposed port development projects in the North

Location	Project	Funding Source	Fund	Current Status
Jaffna	Point Pedro Fishery Harbour	ADB		Proposed Project
	Delft Multi-Purpose Harbour	Korean Fund	LKR 9,600 Mn	Proposed Project
	Gurunagar Harbour	GOSL		Feasibility Study Completed

Source: Data from Ministry of Fisheries and Aquatic Resources Development

The prevailing transportation arrangements from the north to Colombo also creates grounds for middlemen to exert undue influence, as explained under section 3.5.3. This adds undue pressure on the business community and hinders economic conduciveness. This can be avoided if a well-functioning airport and seaports are developed in the Northern Province which would effectively eliminate the exploitation of producers by creating exporters locally in the north.

3.2.3 Lack of cold storage facilities

The need for cold storage facilities was a key topic during our interviews with both private and public sector stakeholders in the agriculture and fisheries sectors. As the majority of sea food and agriculture produce exporters operate from the Colombo seaport and the Katunayake airport, the produce from the north needs to be transported to the exporter with additional care owing to its perishable nature.

However, it was evident that the Northern Province lacked the required cold storage facilities with the closest cold storage being the “Agro Cold Storage Complex” being developed in Dambulla. However, this complex is only partly built and is facing delays with the change in government in 2019. Though the previous regime that was in power during 2015 to 2019 had planned to construct a cold storage facility in Jaffna to service the Northern Province, they were unable to kick start its construction. With the change in the government in 2019, there is no indication yet, if the new regime will take the initiative forward.

In order to store agricultural and fisheries produce on a commercial scale, high tech cold storage facilities are vital. Thus, in the current context, lack of proper cold storage facilities remains a notable obstacle for potential new investments in the Northern Province.

3.2.4 Frequent fluctuations of voltage in the electricity supply

From the interviews conducted it was evident that electricity coverage and access to electricity was not an issue across the Northern Province. However, it was noted that there are frequent fluctuations in voltage levels in the north, especially in the rural parts of the province.

Although this does not create an obstacle to traditional fisheries and agriculture methods, this could be a problem for technology-based and commercial scale cultivation as they would require uninterrupted supply of electricity as well as a steady voltage to avoid damages to high-tech electric equipment.

3.2.5 Poor water management and improper drainage system

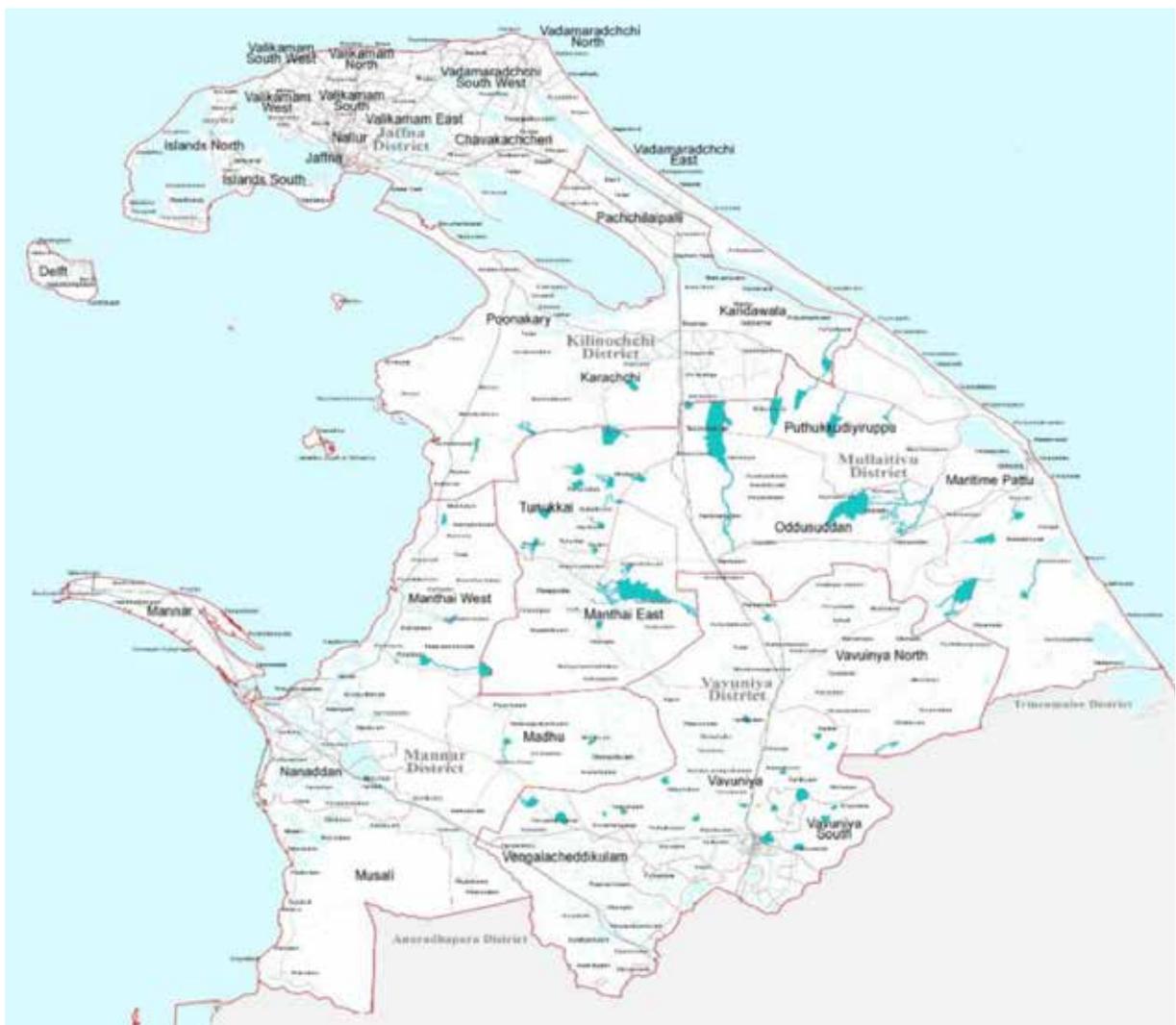
The Jaffna district does not have tanks for water collection and is totally dependent on limestone aquifers for irrigation and cultivation purposes. Thus, the district has a shortage of good usable water for drinking and cultivation as the region receives only a little rain throughout the year, which is insufficient to recharge the underground limestone aquifer.

Table 6 - Tanks in the Northern Province and their land coverage

District	2018					
	Tanks				Area (Ha)	Landing Sites
	Major	Medium	Minor	Total		
Jaffna	-	-	-	-	-	-
Mannar	1	3	39	43	6,360	10
Vavuniya	1	4	32	37	4,220	24
Mullaitivu	2	5	36	43	10,600	33
Kilinochchi	2	2	22	26	5,600	9
Northern Province	6	14	129	149	26,780	76

Source: Data from Ministry of Fisheries and Aquatic Resources Development

Figure 4 - Major and medium tanks of the Northern Province



The increased rate of extraction and the low recharge rate has caused the intrusion of salinity into aquifers making the water unsuitable for drinking and irrigation. This has been aggravated further by the contamination of ground water with agrochemicals and fertilizer and the intensive agricultural methods practiced by farmers. In order to overcome this shortage, the Cabinet of Ministers of the previous regime that was in power during 2015 to 2019 approved a project titled 'A River for Jaffna' which was estimated to cost LKR 3.6 billion to be implemented within 5 years and in two phases. However, this project is yet to be initiated. A senior official speaking for the Governor of the Northern Province mentioned that, although there was a change in the regime in 2019, this project has not been abandoned and was under discussion with the Minister for Irrigation and Rural Development. According to him, the Minister has in principle agreed to continue with the project, and a task group was formed with the inclusion of the Department of Irrigation and officials of the ministry to study and formulate a concrete proposal to initiate the project. Despite the above, in the current context an investor would be concerned about the risk of water shortages in the midst of business operations.

Further, the Northern Province lacks a proper drainage system. Even light rains in the region tend to cause minor flooding conditions which affect the farmlands and fisheries in the north. Additionally, access roads, mostly constructed with gravel in rural parts of the region, are regularly susceptible to flooding making accessibility a challenge. Day to day life is impacted until flood levels subside and the roads are passable again. The flooding caused by the heavy rains in the Northern Province in December 2018 further reinforced the views shared by the stakeholders on the need for a proper drainage system in the Northern Province. Well planned and constructed water drainage systems are vital to resolve these challenges.

3.3 Bureaucracy

3.3.1 Non-availability of suitable land

The primary issue brought up repeatedly during interviews with stakeholders was the difficulty in obtaining suitable land to commence business operations and expansion. Further, it was evident that the difficulties in obtaining land could not be attributed to one particular reason and was in fact due to several reasons (explained below) which collectively stifle economic growth and discourage new investments in the north.

According to the official statistics published by the Northern Provincial Council in 2018, the Northern Province covers an area of 8,983.59 sq.km accounting for around 13.66 per cent of the total area of the island. This region has a land cover of 8,568.44 sq.km while inland water area covers 415.15 sq.km.

The north has by far the largest extent of dry monsoon forests (1,981.30 sq.km) of any province in the island. In particular, the districts of Mannar and Mullaitivu are extensively forested, while Vavuniya is partially covered in forest. Comparatively, Jaffna District has significantly fewer forest areas according to the data presented in the

district statistical handbook prepared by the Department of Census and Statistics (DCS) (link: <http://www.statistics.gov.lk/DistrictStatHBook.asp>). As such, a significant portion of the land in the north comes under the purview and protection of the Department of Wildlife Conservation and the Department of Forestry of Sri Lanka. Although Jaffna has a low forest coverage compared to other districts, most land in the district is fragmented into small plots and not ideal for large scale investment projects. As such, despite the population density being low in the north, it was evident that a significant portion of the land area cannot be put to economic use for large scale investments in the agriculture or fisheries sectors.

Table 7 - Land usage in the Northern Province

Nature of land	Jaffna	Mannar	Vavuniya	Mullaitivu	Kilinochchi
Forest	13.34%	76.49%	49.71%	66.18%	23.30%
Home gardens	29.67%	1.62%	15.21%	7.44%	33.83%
Paddy lands	9.92%	7.95%	14.12%	7.75%	24.58%
Perennial crops	0.32%	1.78%	0.11%	3.49%	-
Other field crops (seasonal crops)	10.76%	3.25%	7.58%	5.01%	0.14%
Large inland waters	1.54%	4.51%	6.21%	7.70%	0.00%
Abandoned land	3.03%	2.86%	0.20%	0.47%	0.00%
Built up land	0.00%	0.35%	0.63%	0.05%	0.00%
Scrub/Chena	10.81%	0.00%	6.01%	0.06%	0.65%
Other	19.19%	0.00%	0.22%	1.37%	17.30%

Source: District Statistical handbook, Department of Census and Statistics
(Link: <http://www.statistics.gov.lk/DistrictStatHBook.asp>)

Note: All figures are for 2018 except for the Mullaitivu district which is for 2017

The high percentage of land that comes under the purview Department of Wildlife Conservation and the Department of Forestry creates an obstacle to obtaining land for economic purposes and investment. Owing to the fact that these institutes work on a mandate of conservation, they are opposed to large scale projects and industrialization, and hence reluctant to release land for economic activity.

Land demarcated as wildlife sanctuaries by the Department of Wildlife Conservation, although still restricted, have comparatively less stringent regulations. If privately owned land also falls within the boundary of the wildlife sanctuary, the Department of Wildlife Conservation is willing to release the land subject to rigid conditions. Obtaining land declared as a nature reserve by the Department of Wildlife Conservation is extremely difficult. In addition to the land falling under a nature reserve, no development activity can be carried out for a further radius of 1.6 km (1 mile) from the reserve's boundary without the consent of the Department. A public sector official stated that the Department had recently declared in excess of 40,000 acres of land as

a nature reserve in the Manthai West division in Mannar district. The Department of Wildlife Conservation also reserves the right to acquire private land falling within the reserve limit under their custody. Recently the Department acquired 12,000 acres of paddy land falling within the reserve limit into their custody. Further, moving a motion in parliament in January this year, the government declared six wildlife sanctuaries in Chundikulam, Delft Island, Adam's Bridge, Kotuaththawala, Kayankerni, and Madu Road as national parks. In doing so permanent structures, agricultural lands and villages were removed from the region in the process of converting land including in Chundikulam and Madu Road sanctuaries to nature reserves.

This bottleneck is common to both the private and public sectors. A stakeholder mentioned that since 2016, a government project implementation agency has been trying to obtain a land declared as a wildlife reserve from the Department of Wildlife Conservation. Though the Cabinet has approved the release of the land following the *Integrated Strategic Environmental Assessment of the Northern Province of Sri Lanka* (IUCN and UN Environment, 2017) the Department is still resisting the release of the full extent of land.

3.3.2 Competing claims of land ownership

The decades long war in the country caused significant collateral damage and internal displacement, and many residents in the north lost the titles and documentation that proves the ownership of their lands. To this day many residents face obstacles in proving legal ownership to their ancestral property. Further, the involvement of state agencies, the LTTE, the armed forces and influential civilians in seizing land, and in some instances distributing the land to other civilians, has further complicated the issue of land ownership. The issue is significant to the extent that it has always been a focal point of the government and the provincial council in their efforts in reconciliation and governance reforms.

The complicated past with a parallel administrative control by both the government and armed groups has led to several parties often having competing claims to the same piece of land. It was also noted that competing claims over plots of lands are not only occurring between individuals, but also between state, non-state, and religious entities. Adding to the struggle over land ownership, northerners practiced purchasing and selling of land without following legal procedures during times of conflict. The involvement of influential parties and militant groups in land distribution without following legal processes has further complicated issues on the ground. The investment climate in the region is also affected by the prevailing situation as buying and selling of land is a multifaceted and slow process. During an interview, a stakeholder stated that there are people in the north who are looking to sell off their under-utilized agricultural land but are unable to do so due to not having proper documentation and titles.

Undue influence from various parties has been increasing in the settling of prevailing land issues, making it extremely difficult for the de-centralised arms of government

at district level to function without deferring to higher-levels of government. The processes of land alienation as well as land reclamation especially, have fallen victim to the trend of politicisation of land issues. Thus, the lack of proper records on the rightful ownership of land and the malpractices in terms of dealing with land has led to investors facing difficulties in clearing land ownership issues and acquiring land in the north. A potential investor highlighted an instance where he purchased a plot of land after careful assessment but when setting up business operations, the divisional secretary claimed that the land belonged to the government. Further, the investor mentioned that despite employing competent lawyers he was not able to clear the titles for the land. Despite the above, several stakeholders interviewed opined that there is a possibility that if implemented, the MCC agreement (refer annexure 6.3) could provide a basis by which most issues relating to land titles could be clarified.

3.3.3 Secondary occupation of land

Secondary occupation is an issue that is prevalent across the country. During an interview with a state regulator it was stated that close to 82 per cent of land in Sri Lanka is owned by the state, which, however, is currently occupied by the public who are living on the land. It must be noted that private titles tend to evolve. As such land moves from generation to generation, being handed down to the eldest in the family.

This issue is much more prevalent in the north due to the civil conflict that shadowed the region for three decades. During the period of war, people fled the region for safety, leaving their properties unoccupied. This led to secondary occupation by a range of actors including the displaced or other civilians, the military, the police or other state representatives.

With the end of the war in 2009, the government acquired land on national security grounds or for development purposes. Also, resettlement initiatives were in full flow to restore normality in the region. It was at this point that conflicts began to arise among the landowners and the secondary occupiers. The complications in determining the rightful ownership of land for investors to acquire land to set up businesses, is somewhat demoralizing at the very offset of evaluating investment viability. Hence, economic activity tends to be sluggish owing to prevailing disputes and legal constraints.

3.3.4 Complicated approval process in acquiring land

The complicated approval process in obtaining land for business purposes also creates a bottleneck for private sector investments in the north. During interviews with stakeholders it was highlighted that, the process of obtaining a suitable land for a large-scale business operation could take up to 3 to 5 years in certain instances. If it is a state-owned land, the entire approval process could take up to even 5-10 years. Further, if the land extent is over 100 acres, Cabinet approval is required, which takes additional time. In order to apply for a license for business operation particularly in the fisheries sector, land clearance is compulsory and as such, the entire process of obtaining

business licenses could also be delayed owing to delays in obtaining the required land approval.

A key stakeholder facilitating FDI to the country stated that getting ownership of a land is extremely difficult and takes a significant amount of time owing to complicated approval processes, which is further burdened by obsolete laws such as “Thesawalamai” (refer annexure 6.2) governing land in the north. The opportunity cost incurred as a result of the usual delays in approval processes tend to discourage investors. Many officials stressed the need for simple and comprehensive laws and regulations to attract investors to the north.

Unclear titles and demarcations are the other reasons for delays in obtaining approval for land. This issue was further substantiated by the claims made by a National Chamber where they stressed that the land in the north is not properly demarcated and that it was difficult for their members to obtain the original plans and clear title deeds during acquisition. One potential investor mentioned that even after careful assessment and acquisition of the land in the north, the Divisional Secretary is now claiming that the land belongs to the government. This incident completely depleted the investor’s desire to invest in the north.

Many land plots in the north belong to several government institutes, and in such case, approval needs to be obtained from each respective institution. If the land is under the protection of the Departments of Wildlife, Forestry or Archeology, the process of obtaining approvals is extremely difficult. The lack of effective coordination among these government institutes in obtaining the approvals also creates a negative impression in the minds of investors and tends to drain investor confidence. Due to this reason, the need for a single window (one-stop-shop) at provincial level was stressed during the interviews. It was felt that such a mechanism would strengthen coordination among government institutions and support investors in obtaining approvals without any hassle.

The number of steps to be followed in obtaining approval for land for agriculture or fish culture, as it is, is fairly time consuming and monotonous. If a problem is identified at a particular stage of the process, this is sequentially escalated down the approval chain back to the applicant, and information is again sent across the line of approval to resolve the matter. In certain instances, this could result in an investor having to endure a repeat of the entire process from the start.

Figure 5 - Procedure of obtaining approval for land for agriculture or fish culture

1	Identification of a suitable land and submission of the project proposal to the Divisional Secretariat office with a detailed financial plan.
2	Divisional Secretariat will get approval and consent from other agencies such as NAQDA, Department of Wildlife Conservation, Forest Department, Department of Archaeology etc.
3	Obtain the approval of the Divisional Land Use Planning Committee.
4	Obtain the approval of the District Land Use Planning Committee.
5	Approval of DDC may be required in certain regions, particularly in the Northern Province.
6	Obtain the approval of the Provincial Land Commissioner and Provincial Land Use Planning Committee
7	In certain instances, the Governor needs to approve. However, the Governor's approval is not required for waterways and hence this could be bypassed and the Central Government could be approached directly.
8	Obtain Land Commissioner General's approval.
9	Obtain the approval of the Minister of Lands.
10	Once the Minister approves the proposal, it goes back down the chain to the Divisional Secretariat for surveying and plan verification.
11	The proposal is then sent back to the Land Commissioner General for verification and then sent back to Minister to be gazette.
12	Once gazetted the Divisional Secretary will issue confirmation of ownership of land to the Investor.

Source: Ministry of Lands and Land Development and Ernst & Young

3.3.5 Influence by politicians and community leaders in obtaining land

Land has always been viewed as a political issue, especially in the north, and is also considered as one of the root causes of the war. Unfortunately, in the post-war period, the perceptions of politicization and ethnicization of land have hardened and trust has deteriorated among the key stakeholders.

After the 13th Amendment to the Constitution of Sri Lanka, provincial councils have greater power over the use of land. The provincial councils are now required to provide approvals for the use of land. This has unfortunately prolonged the land acquisition process and tends to discourage investors. The transfer of powers over the land has increased the influence of the politicians and community leaders in the region. A chamber in the Northern Province mentioned that the land under the purview of the provincial government is less in the north and even so, the provincial council exercises reluctance in giving out land to outsiders.

The undue influence over land has also brought about unjustifiable procedures in handling land matters. Interestingly, the researchers came across an instance where provincial bodies had requested for a competitive bidding process to acquire state land instead of having a clear process based on professionally conducted land valuations.

In addition, the study identified that the influence and the power of religious leaders was very prominent in the region and tends to add to the caution exhibited in the community (as is seen in the example under section 3.1.2).

3.3.6 Complicated process and delays in obtaining business licenses

The complexity of the approval and licensing process varies with the sector, produce and the scope of the business.

In the fisheries sector, the aquaculture farms are categorized as Extensive, Semi Intensive and Super Intensive. However, during discussions with an official from a fisheries sector regulatory body, it was identified that the approval process and regulations were standardized between the scale of intensiveness and does not relate to the type of produce cultivated. As an example, an extensive aquaculture produce such as sea cucumber and seaweed, requires obtaining the same approvals and licenses as crab culturing or fattening in order to commence operations.

Another key obstacle identified was the sheer number of different government institutes the investor has to approach for licensing and approvals prior to commencing of the investment. Usually, an investor looking to commence an intensive farm with high tech and high investment would require approaching the following institutes for approval, among others.

- Quarantine Unit
- Department of Wildlife Conservation
- Department of Fisheries and Aquatic Resources Development
- Department of Coast Conservation and Coastal Resource Management
- Marine Environment Protection Authority
- Divisional Councils
- Department of Irrigation

As a result, the approval process would take up to six months provided that the approvals for the land has already been obtained. However, in certain cases it was noted that it could even take up to approximately two years to get the required approvals.

At present, this is a serious constraint as far as new investors are concerned, as it leads to noteworthy opportunity costs and high levels of frustration among investors. In addition, most approvals required need to be current, and interviewees stated that by the time the last approval was obtained, the initial approvals they had obtained had expired and hence, the investor was required to follow the same process again.

3.4 Demography

3.4.1 Lack of skilled labour

Though 5.6 per cent of the population of the Northern Province is unemployed according to statistics published (DCS, 2019), finding skilled labour for both specialized and management roles was mentioned as a challenge by many investors in the north. Hiring skilled labour from other parts of the country tends to be an expensive option as the investors are compelled to pay a premium for their relocation. For large scale technology-based agriculture and fisheries processing businesses, skilled labour is required and finding suitable labour is a significant bottleneck identified by investors during the interviews. The *Economic Development Framework for the Northern Province* (CBSL, 2018) has also identified the lack of skilled labour as a key factor that limits the competitiveness of the province.

The fisheries sector particularly faces difficulties in producing and retaining a skilled labour force. During an interview with a senior official of the National Aquaculture Development Authority (NAQDA) it was revealed that the number of graduates who pass out of the Ocean University of Sri Lanka with degrees in aquaculture is insufficient to cater to the demand in the sector. This is further aggravated by a considerable number of graduates in the sector migrating for foreign employment opportunities with lucrative pay.

However, it was evident that access to unskilled labour is not a challenge in the region. Accordingly, investors would have to commit adequate time and cost to provide the required training and technical assistance to the people in the north at the inception stage of the project.

3.4.2 High cost of unskilled labour

During the interview with a senior NAQDA official it was also revealed that, though unskilled labour is relatively easy to find in the north, it is quite expensive. He finds this as a notable constraint as this has a direct impact upon the viability of the investment. The mean income levels in the northern province are seen to be less than the national level (CBSL, 2019). Hence this could lead to the demand of higher wages. Therefore,

detailed feasibility studies need to be carried out considering the significant cost factors prior to investments.

Table 8 - Mean Income in the Northern Province and at a national level

Mean Income, Rs. Per Month	Northern Province	National	Difference (LKR)	Difference (%)
Per Household	46,081	62,237	-16,156	-19%
Per Person	11,384	16,377	-4,993	-23%
Per Income Receiver	23,286	33,894	-10,608	-24%

Source: Economic and Social Statistics of Sri Lanka 2019, CBSL, 2019

3.4.3 Finding dedicated labour

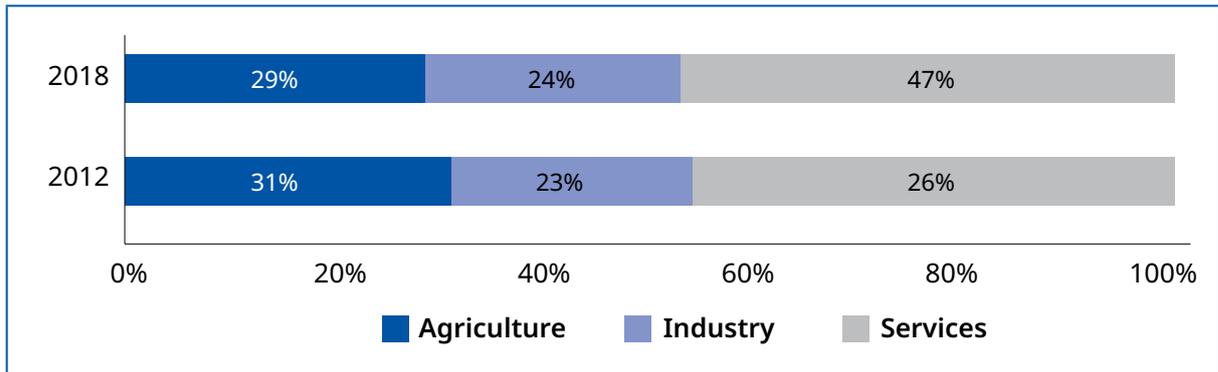
Despite the ability of finding unskilled labour with relative ease, finding dedicated people was noted as a difficulty with employee turnover rates usually being high in the north. The people of the north were said to frequently change their jobs, and this could be partly due to fishermen and farmers taking up alternative jobs during the off season. The demand side stakeholders identified this as a constraint as frequent labour turnover results in the need for more frequent trainings for new staff, bringing about the need to incur additional time and cost.

Further, during the interviews with key stakeholders the research team was informed that since 2015 there has been a growing trend of alcohol and substance abuse among the youth in the Northern Province. A possible reason for this could be the easing of controls following the change in regime in 2015. In the future, this could lead to problems owing to deteriorating efficiency and potential health concerns among the young labour force.

3.4.4 Youth prefer the service industry

A major concern among all stakeholders is the lack of youth participation in the agriculture and fisheries sectors. The perception of stakeholders interviewed was that, as opposed to earlier generations that lived in the north, the current generation of youth do not prefer to take part in these labour intensive professions and are more inclined to move to the service sector in line with the existing trends in the country. This is also significantly visible among the estate communities where labour has emerged as a serious issue, as most youth have already moved out, or are looking to move out of the estates for employment elsewhere.

This is further highlighted by the increased share of employment in the service sector in the Northern Province during the past several years.

Figure 6 - Employment by major industry group in the Northern Province

Source: Sri Lanka Labour Force Survey Annual Report – 2018, DCS, 2019; Sri Lanka Labour Force Survey Annual Report – 2012, DCS, 2013. Analysis by Ernst & Young.

The view of the policy makers and other stakeholders was that the agriculture and fisheries sectors have to move away from the traditional methods practiced currently and towards a technology-based process in order to pique the interest of the youth and attract them to the sectors. This was considered vital for the development of the north as it encompasses 40 per cent of the coastal line and is the least dense region in terms of population in the country which makes it an ideal location for the agriculture and fisheries sectors to flourish.

3.4.5 Low female participation in the workforce

According to the Department of Census and Statistics of Sri Lanka, in 2012, approximately 1.2 million households, or 23.5 per cent of households in Sri Lanka, were headed by women. Of this number approximately 58,000 female heads of households were in the Northern Province. However, the female labour force participation rate in the Northern Province is only 22 per cent compared to 35 per cent at the national level.

Several reasons for this lower participation was evident during the interviews conducted. A key factor being the dual responsibility of earning income and household work, burdening and limiting women from engaging in livelihood activities. Many female heads of household have taken up their new role due to loss of lives, disappearances, and displacement due to war, amongst other reasons, which have made it necessary that they balance income earning with care work whilst not having adequate support.

The poor road network that constrains connectivity also has an impact on women's participation in the labour force. It was evident that many women are willing to engage in more than one livelihood activity such as making snack mixtures, fishing, and agricultural labour, amongst others. However, at present many women find it difficult to take up these employment opportunities due to the need for extended travel and the extensive time it takes. Hence, women stress the need for jobs within a reasonable distance of their homes to avoid the extensive travel times, and the development of

extended road networks could facilitate accessibility and a more conducive businesses environment.

Another reason for the lack of interest to join the workforce is the unsustainable income sources through income transfers and remittances from relatives in Sri Lanka and abroad which eases pressure on women to participate in the labour force. Poor health also plays a significant role in women's labour force participation. This could be attributed to the facts that female heads of households tend to be older and experience more psychological trauma and stress due to the struggle of meeting household needs without a spouse.

3.5 Business Development Services

3.5.1 Unconducive environment for investments to flow into the Northern Province

During the interviews, most demand side stakeholders including investors who tried to invest in the Northern Province but failed, highlighted the absence of a conducive environment to encourage investments.

At the very outset investors face difficulties in acquiring information on the process of setting up their business as there was no proper institution to guide them. During discussions with investors it was revealed that, during the inception phase they were asked to go to several government bodies to collect the information on the process they needed to follow. This had resulted in substantial time being spent, which was disheartening. Further, it was noted that, in certain instances, visiting several government bodies did not help investors to gather an adequate understanding about the process because even the most senior officials of certain government institutes did not possess a good understanding of the relevant processes to be followed.

Moreover, the interviews highlighted that many investors expect a "One-Stop Shop" from where they can gather all the necessary information and obtain approvals and licensing to start a new business. Although the BOI in general provides these services for foreign investors, for sector specific approvals, especially in the agriculture and fisheries sectors, the investor may need to visit several ministries and institutes. Thus, the absence of such a facility serves as a key constraint to the Northern Province attracting new investments. To this end, the Cabinet has approved a proposal for the establishment of 'One-Stop-Shop Centres' to provide all services related to MSMEs at one location in March 2020. The service centres will be based in 25 districts in the country and will operate in collaboration with other relevant government agencies and relevant parties. Also, a senior government official in the northern provincial council mentioned that these centres will initially disseminate information to the investors and gradually improve its service offerings to the level of granting approvals by the relevant agencies who will be present at these centres.

3.5.2 Produce in the North are too primary and do not adhere to quality standards

The researchers observed that a majority of the agricultural and fisheries production function with a dearth of latest technology. Most farmers, especially in the rural areas of the region, are content in adopting traditional cultivation methods and are quite alien to new technology. Most produce is sold in their primary forms with little or no value addition. Further, the parties involved in the agriculture and fisheries sector do not pay much attention to quality standards in terms of food health and safety either due to lack of knowledge or lack of interest. Several stakeholders elaborated on malpractices in the agriculture and fisheries sectors that take place on a daily basis in the Northern Province (excessive use of pesticides and chemicals, use of harmful farming techniques, poor waste-water management etc.). This lack of acceptable standards has led to missed opportunities for the people in the north. The lack of good post-harvest facilities is a major constraint in maintaining quality of the produce. This is especially crucial for the fisheries and the agricultural sector, perhaps more than any other sector. These circumstances in the long run could downgrade the country's reputation as a quality food producer.

A supply side stakeholder mentioned that though there is a great demand for mud crab and sea cucumber from China, Singapore and Hong Kong, due to lack of knowledge on internationally accepted standards and more importantly the lack of advanced packaging technology, the Northern Province is currently not in a situation to seize that market.

Thus, new investors looking to enter the food processing industry in the north may find it difficult to source produce that adheres to international quality standards and would have to incur additional cost to educate and encourage the farmers to adopt and follow quality standards.

3.5.3 Influence of middlemen in the north

Middlemen are intermediary agents between two or more parties especially in the form of a dealer or agent. Fishermen and farmers in the north extensively use middlemen to sell their products as they do not have access to the market to sell or export their products owing to lagging supply chain connectivity in the north.

During our interviews with both government and private sector stakeholders it was revealed that middlemen tend to gain a larger chunk of profits, at the expense of the farmers and fisherman who are exploited as they are compelled to sell to them. A crab farmer in Mannar informed us that he sells his crabs to a middleman in Colombo at a profit of LKR 300 to 500 per kg, but the middleman passes on the goods to the exporters with a minimum profit of LKR 500 per kg. The additional layer of middlemen that has encroached into the supply chain adds on to the cost of production and results in an unnecessary surge in the prices of goods. The crab farmer further stressed the need for a market access plan to link the farmers directly to the exporters.

Moreover, it was noted that middlemen exert their influence on critical decisions such as pricing, inventory levels and artificial scarcities. Therefore, the middlemen mafia is identified as a key bottleneck which distorts investor interest and attraction. Thus, regulations and control mechanisms need to be brought in to protect both the farmers and investors, so that goods could be traded directly without involving the middlemen or with minimum involvement.

To this extent, during the recent past, the CBSL under its Poverty Alleviation Microfinance Project initiated a joint venture with the Cargills supermarket chain and the Bank of Ceylon called “Yal Uthpaththi” programme. The aim of the project was to develop markets and direct purchasing of produce from the people of the north. Accordingly, under the programme, Cargills sells products such as baby crops, seeds and fertilizer to farmers in the north and provides consultation and technical assistance in cultivating their crops. Once the yields have been collected, Cargills would pay the farmers for their harvest netting off the cost of the baby crops, seeds and fertilizer provided earlier. Through this project, the farmers had guaranteed sales and access to the market, whilst Cargills in return got goods at cheaper prices creating a win-win situation for both parties. However, Cargills used to purchase the goods from the farmers on 30-day credit which led to cashflow issues for the farmers. As such, this programme is not in operation at present.

3.6 Policy Environment

3.6.1 Political instability and the inconsistency of policies

In Sri Lanka, policies are largely inconsistent and change frequently when a new government comes into power. During our interview with a key government official who is directly involved in investment facilitation in the country, the research team were told that since September 2018, investors have witnessed the instability in the country and this has led to a decline in the number of new investment proposals received by his institute. He expects this trend to continue until the new parliament is elected in due course. This is a major claim as it was mentioned by a key government official in an investment facilitating agency who went on to say that as a supply side stakeholder, they too are hoping for a stable policy framework to fulfill their duties efficiently. The current government’s perception and the strong opposition of the MCC agreement leading to and beyond the presidential election as opposed to the previous government strongly favouring the signing of the MCC agreement is a recent example cited to indicate the policy inconsistency that prevails.

A greater part of the stakeholders we interviewed highlighted policy inconsistency as a major bottleneck which creates uncertainty amongst investors. The bill passed on ‘Restrictions on Alienation’ which further imposed restrictions on asset ownership and transfer of title of lands in Sri Lanka, the BOI moving away from extended tax holidays to a current structure of industry specific concessionary rates, and the discontinuation of the “special additional incentives” regime for new investment projects in the Northern and Eastern Provinces which was replaced by the standard “general

incentives” regime for Sri Lanka as a whole, are some of the inconsistencies in policies mentioned by stakeholders. Another supply side stakeholder went on to add that the inconsistency in policies cannot be solely attributed to the decisions made and actions taken by politicians but is also due to the inefficiency of the public sector employees and technocrats who need to clarify and streamline the policy framework and develop comprehensive implementation strategies that facilitate the policy framework.

3.6.2 Lack of a consistent FDI Policy

The majority of the government as well as private sector stakeholders interviewed, emphasized the importance of a consistent FDI policy to attract foreign investment. An FDI facilitator stated that when it comes to obtaining an approval for a large-scale investment, an investor needs to go through over 10 different government bodies which leads to immense frustration for the investor. This tends to barricade new investments to the country as a whole, as a lot of new investors tend to get frustrated about the inconsistency in FDI policy which changes frequently with the change in governments and their ideologies.

Further, during the interviews several stakeholders claimed that certain investors received preferential treatment and luxuries owing to their political ties.

3.6.3 Lack of support and encouragement from the government

During our interviews with investors who have tried to invest in the Northern Province, it was noted that they find the support from government officials to start a new business inadequate. They feel that depending on the size of the investment they must be given a special consideration and fast-track in the process of getting the necessary approvals with necessary coordination from other government institutes.

Furthermore, most of the potential and continuing investors interviewed highlighted the lack of encouragement from the government to start a new venture in the Northern Province. They value special tax relief, concessions, tax holidays etc. from the government as an encouragement to go to the Northern Province. At the moment, a 200 per cent enhanced capital allowance (refer annexure 3.4 for details) is the only encouragement granted for investments in the Northern Province. In a macro perception, this is felt to be not adequate. Earlier, the BOI had the powers to provide special concessions for investments in general, depending on the scale and scope of the projects (concessions for projects approved under Section 16 of BOI law and projects approved under Section 16 of BOI law). However, these powers have also been taken off from the BOI. Thus, the absence of such policies serves as a bottleneck for new investments to flow to the Northern province.

3.6.4 Frequent change of senior government officials

Another bottleneck identified was the lack of consistency of authority due to the frequent change of government officials in the Northern Province. It should be noted that this is a common occurrence across the country and not only specific to the Northern Province. During the interviews with investors who tried to invest in the Northern Province but failed, many emphasized the fact that frequent change of government officials was an obstacle they faced during their endeavours, mainly due to the delays it causes in obtaining approvals for setting up the business and obtaining permits and licenses.

Generally, when a new government comes into power, they place their officials in key positions in ministries and government institutions. In these instances, the approval and licensing process could be prolonged as new officials may require a re-visiting of the entire processes. It could even result in the investor having to start the approval process from scratch again. This results in a substantial opportunity cost in terms of time and money wasted.

This claim was further substantiated by the events following the recent presidential elections where the Ministries and investment facilitation agencies such as BOI and Export Development Board (EDB) saw changes made to their key senior positions following the appointment of the new President.

4

Conclusion

The private sector is generally considered as the engine of growth. However, in order to maximise the private sector's role in economic development, a conducive and enabling environment needs to be created by the government and facilitated through promotional efforts and incentive schemes to provide adequate yield on the investments. Private sector investment if enticed would directly contribute towards employment generation, uplifting livelihood standards and also poverty eradication. However, the current flow of investments to the Northern Province is not as desired. The bottlenecks discussed in this report have hampered the investment climate in the north and affected investor confidence.

The governments in the post-war era have placed importance on the development of the Northern Province and its integration with the national economy. However, many initiatives were not very successful owing to poor coordination, flawed policies and a lack of a macroeconomic impetus. As a result, several bottlenecks, as discussed in this report, have emerged hindering the economic and investment climate in the region. Accordingly, although there seems to be potential and opportunity for growth, there also seems to be skepticism around the viability of venturing out to the north. Therefore, at the very outset, there is a need for the government to establish a long-term robust development strategy and consistent policy framework for the Northern Province to provide direction and drive regional economic growth with the collaboration of all stakeholders. In doing so there is a need to reflect on the previous development initiatives in order to build on past successes and eliminate flaws and drawbacks. Especially, in the context of encouraging private sector investments, a simple and consistent FDI policy needs to be established to cater to foreign investors.

Since the end of the civil conflict in the country, the Northern Province has witnessed noteworthy development, although not spread across the entire province. The basic infrastructure is in place to connect the province with the rest of the country and to stimulate regional economic activity. However, government support and investment facilitation is still critical. Infrastructure facilities, especially in rural parts of the province, need to be upgraded so that it provides rural-urban linkages. Also, there is a need to develop regional seaports and airports to facilitate investments of commercial scale.

There is a need to review the existing bureaucratic structure, regulations and formalities in order to create a more enabling environment for investors to set up and

operate their businesses. Especially, the process to provide necessary approvals and licenses to set up operations needs to be streamlined in order to simplify and speed up the process.

Given that the population in the north is somewhat naturalized to their environment and is sensitive to outsider intervention, the government also needs to play a role in bridging the gaps in confidence and in nurturing strong relationships among the resident population and outside investors (including overcoming the obstacles of language and cultural barriers). Government intervention is vital to reach out to rural and marginalized residents in order to educate them on investment motives and benefits so that the risk of resistance is mitigated. Also, government support is needed to cultivate a culture of entrepreneurship and integrate MSMEs and local business communities to the supply chains of large-scale corporations.

During the study it was evident that the government agencies and the regulatory authorities have also identified some of these obstacles and are keen on addressing them to trigger private sector investments. Whilst the findings of this study would reinforce the need for such intervention, it is also expected to provide further insight to the underlying factors that create these obstacles, and to surface bottlenecks that have not caught attention.

5

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6

Annexures

6.1 List of Stakeholders Interviewed

Stakeholder type	Organization
Government	Ministry of National Policies, Economic Affairs, Resettlement & Rehabilitation, Northern Province Development and Youth Affairs
	Ministry of Finance
	Ministry of Industrial Export & Investment Promotion
	Ministry of Small & Medium Scale Enterprises and Entrepreneur Development, Industries & Supply Management
	Central Bank of Sri Lanka
	Board of Investment of Sri Lanka
	Sri Lanka Export Development Board
	Ministry of Land and Land Development
Private Sector	Ceylon Chamber of Commerce
	Federation of Chambers of Commerce and Industry of Sri Lanka
	International Chamber of Commerce
	Ceylon National Chamber of Industries
	Chamber of Commerce and Industries of Yarlpanam
	Vavuniya District Chamber of Commerce, Industry and Agriculture
	Mannar District Chamber of Commerce, Industry and Agriculture
	Northern Province Traders' Association
	Vavuniya Traders' Association
	Jaffna Women's Chamber of Commerce, Industry and Agri Business
	Women Entrepreneurs Association

Agriculture Sector	Investors who have already invested in the north	K. Uthayakumar, Nelukulam - Vavuniya
		M. Rajogopal - Kilinochchi
	Investors who have planned to invest but not yet initiated	S. Jeyakanth - Mugavil
		S. H. Rajee Silva - Rambaikulam
	Investor who have invested but failed	Suthakaran - Ommanthai
		Logeswaran - Eachchankulam
	Agriculture sector regulatory bodies	Department of Agriculture (Ext) - Mullaithivu
		Assistant Commissioner Agrarian Development - Kilinochchi
		Seed and Planting Material Development Centre
		Coconut Cultivation Board
		Coconut Development Authority
	Associations/ Cooperatives, Societies	Young Farmers Club - Oddusuddan
		Integrated Farmers Society - Oddusuddan
		Fruit Producers Association - Vavuniya North
Vinayakapuram Farmers' Cooperative Society		
Palali North Farmers' Cooperative Society		
Fisheries Sector	Investors who have already invested in the north	Sinnapu Roche Augustar Roche
		Eden Aquarium & Sea Foods (Pvt) Ltd. - Nagalingam Jon Don Smith
	Investors who have planned to invest but not yet initiated	Shevon Gunaratne
		R. Silva
	Investors who have invested but failed	New Silkroad Aquatic Company (Pvt) Ltd
		Vani Samarawickrama
	Fisheries sector regulatory bodies	National Aquaculture Development Authority of Sri Lanka (NAQDA)
		The National Aquatic Resources Research and Development Agency (NARA)
		Ministry of Fisheries and Aquatic Resources Development
		Coastal Aquaculture Extension and Monitoring Unit Kilinochchi - NAQDA
		Northern Province Department of Fisheries
	Associations/ Cooperatives, Societies	Sea Cucumber Growers' Association
		District Federation of Rural Fishery Organisation - Kilinochchi
		Mud Crab Growers' Association
		Fishermen's Cooperative Societies Union - Kilinochchi
		Fishermen's Cooperative Societies Union - Jaffna
Fishermen's Cooperative Societies Union - Mullaithivu		

Small and Medium Enterprises	Anaimugan Industries – Kilinochchi
	Nutri Food Packers
	Sinbon/White stone - Vavuniya
	Sivanarul Production - Kilinochchi/Mullaitivu
	Yharl Enterprises (Pvt) Ltd
	Sempulam Dry Products

6.2 Thesawalamai Law

Thesawalamai is a territorial customary law of Sri Lanka apart from the General Law of Sri Lanka which operates strictly within limited parameters. The Thesawalamai, which is a land and property law, applies to a certain group of people – the inhabitants of the Northern Province. The Thesawalamai law is subjected to many controversies as regards to whom exactly this law applies to, all inhabitants of the Northern Province or only the Tamils of the Northern Province. Apart from this controversy this law is widely spoken about for its recognition of the necessity of women’s ownership to land and property for the security of their future.

According to Thesawalamai, the property can be divided into three categories – Mutisam, Chitanam and Tetiyatetam.

- Mutisam is the inherited property of a man from his parents,
- Chitanam is the inherited property of a wife from her parents,
- Tetiyatetam is the acquired property of man and wife during their lifetime together.

The daughters inherit the Chitanam of the mother, while the sons inherit the Mutisam of the father. The acquired property is divided equally among the sons and daughters. Thus, the inheritance of a man and his wife remain separate.

When a widow remarries, the daughters of both marriages get her property, and when a widower remarries he must ensure that the deceased wife’s dowry is given as dowry to her daughters, while fifty percent of his Mutisam will be shared among the sons of the dead wife and fifty percent of the acquired property (till then) shall be shared among all the children of the dead wife.

In the event of a divorce, the wife gets her entire dowry and half the acquired property. The right of the woman to her dowry and acquired property reduced her degree of dependency on others, while it also strengthened the status of a single woman in society. During the period of codifying this law, women were not gainfully employed. Thus, the law is considered advantageous for women.

However, there are certain restrictions in this law – this law prevents women from having free control over her own rightful property. A law that recognizes the labour of a housewife as part of contributing to the husband’s economical achievement, and her right to own her property separately, restricts the woman from taking decisions on the disposal of her property. Chithanam is divided into three parts: cash, jewelry and land or house. While the movable property can be sold or mortgaged by the wife the immovable property can only be mortgaged or sold with the consent of the husband. Whereas the husband need not consult his wife when he intends to sell or mortgage his inherited property or acquired property.

Source: Ernst & Young Findings

6.3 Millennium Challenge Corporation (MCC) Agreement

Who is the MCC and what do they do?

The MCC was created by the United States (US) Congress in 2004 and is an independent US foreign aid agency. Since its inception, the MCC has signed 37 compacts with 29 countries, with an expected benefit to approximately 175 million people. These countries must meet stringent eligibility criteria to qualify for an MCC grant, as funding is dependent on governments demonstrating that they are committed to democracy, investing in their citizens, and economic freedom.

Additionally, the MCC places emphasis on the work being country-led, meaning that the Government of Sri Lanka identifies its growth priorities and develops MCC proposals accordingly. Sri Lanka began negotiations with the MCC in 2004 and was selected by the organization as eligible to develop a compact in 2016. Sri Lanka’s project proposals for the compact were submitted to the MCC Board in November 2017 and the Sri Lanka compact was approved by the MCC Board in April 2019.

However, the agreement has been on hold ever since. As the organization traditionally only funds low and lower middle-income countries. Sri Lanka’s recent graduation to upper middle-income status has now put its eligibility for the MCC grant into jeopardy, unless the agreement is signed prior to 2020.

What does the grant fund?

According to the publicly available draft agreement, the MCC is providing this grant to address two of Sri Lanka’s “binding constraints” to economic growth:

- Inadequate transport logistics infrastructure and planning,
- Lack of access to land for agriculture, the services sector, and industrial investors.

To address these constraints, the MCC will be funding two main projects:

- **The transport project** - focuses on improving traffic management, improving the road network along the Central Ring Road for better connectivity between the Western Province and peripheral provinces, and the modernisation of the public bus system.
- **The land project** - focuses on creating a parcel fabric map and inventory of state lands, digitising the deeds registry, facilitating the ongoing work to move Sri Lanka from a deed registration system to a title registration system, digitising key valuation information for properties in targeted districts, and establishing land policy councils to support the Government's work on land policy and legislation.

The agreement states the projects are expected to benefit approximately 11 million individuals over a 20-year period – around half of Sri Lanka's total population.

Why are people against the MCC agreement?

There have been two main arguments levelled against this agreement. The first, is that the land project will mean that land owned by the Sri Lankan Government will be available for purchase to the American Government. The second argument is that the MCC agreement is an attempt to undermine Sri Lanka's national security. While both these claims have been denied by MCC Resident Country Director Jenner Edelman, an air of suspicion remains.

However, upon review of the publicly available resources of information, the MCC grant does not involve the lease or transfer of ownership of any Sri Lankan land and does not require Sri Lanka to pay back any of the grant amount, as long as the agreement is not explicitly violated.

Further, the document clearly stipulates that the Sri Lankan Government has "principal responsibility for overseeing and managing the implementation" of the projects, and a signed legal opinion from the AG of Sri Lanka must be acquired before the agreement is entered into force. Even after the agreement has been signed, Sri Lanka still has the option to modify the agreement, provided that these modifications do not exceed the allocated funding allowance or extend the grant term of five years.

Source: Ernst & Young Findings

6.4 Investment Incentives Provided by the Board of Investment of Sri Lanka (BOI)

BOI approved projects in the agriculture and fisheries sector across the country are exempted from corporate income tax.

6.4.1 Enhanced Capital Allowance (ECA)

Location	Expenses incurred on Depreciable Assets*	Enhanced Capital Allowance	Extended Period for Deducting Unrelieved Losses	Exemption from Dividends Tax & Exemption of employment income from WHT
Northern Province	> US\$ 3 Mn and <= US\$ 1,000 Mn	200%	10	✘
	> US\$ 1000 Mn	200%	25	✔
Other than Northern Province	> US\$ 3 Mn and <= US\$ 100 Mn	100%	10	✘
	> US\$ 100 Mn and <= US\$ 1,000 Mn	150%	10	✘
	> US\$ 1000 Mn	150%	25	✔

Source: Board of Investment of Sri Lanka (BOI)

6.4.2 Temporary Enhanced Capital Allowance

Location	Expenses incurred on Depreciable Assets*	Enhanced Capital Allowance	Period (after commencement of the Act)
Northern Province	Up to US\$ 3 Mn	200%	3 years
Other than Northern Province	Up to US\$ 3 Mn	100%	3 years

Source: Board of Investment of Sri Lanka (BOI)

6.4.3 Duty Exemptions on Importation (All Island)

- Custom Duty exemption on imports of project related capital goods (plant, machinery and equipment).
- For BOI approved projects, Custom Duty, VAT, PAL, and NBT are exempted for importation of raw materials for export-oriented projects.



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