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Picture shows Sunil Lakshmanasinghe, Gener-

Malaysia. The exchange was witnessed by YB Dato's Seri S. Samy Vellu, Minister of Energy, Telecommunications and Posts, Malaysia (standing in middle). Also in the picture is Zamani Zakariah, Chief Executive Officer CO, Mobikom, Malaysia.

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Call for stronger bond market

An expatriate economist who had been closely observing the Sri Lankan economy urged the government to issue long term government bonds which would help develop the local corporate bond market and also reduce pressure on the short term Treasuries market.

"I think it is very important for the government to consider seriously the development of an orderly bond market" said Dr. Howard Nicholas of the Dutch Funded, Institute of Social Studies (UC-ISS) project of the University of Colombo. He was speaking at a seminar of the Sri Lanka Association of Securities and Investment Analysts (SLASIA) to discuss the effect of the recent budget proposals on the capital markets of Sri Lanka. He said the development of a corporated bond market would also present an alternative source of long term capital to local companies.

"It is also important for the government because, it doesn't

put pressure on the short end of the market by continuously going into Treasury Bills" he said. Currently over Rs. 90bn worth of Treasury Bills are in issue, while longer term instruments with market determined yields are non-existent.

Economists and analysts who spoke at the seminar expressed serious doubts regarding the revenue proposals of the government, especially the Rs. 13bn due to be raised by the divestiture of state-owned undertakings. They said the previous government was only able to raise a maximum of Rs. 2.8bn in one year. In addition they were also sceptical about the ability of the government to peg down recurrent expenditure.

Thus the eventual budget deficit would not be 7.5 of GDP but nearer 10 per cent they said.

This would make the government rely more on the Treasury bill market, and the increased demand is likely to drive interest rates up, was the conclusion.

In this context they called upon the government not to retire the Rs. 9bn debt owned to the banking system. As there was no excess liquidity in the system there was no necessity to retire the Central Bank holding of Treasury Bills. "I would advise the government strongly not to repay this amount" one economist said. "I hope it would be a good trick of the Finance Ministry to hold that in their back pockets as there was a strong likelihood of a budgetary overshoot," he concluded.

CTC Eagle Investment Manager Manjula de Silva said high interest rates were inevitable in the coming year, but contended that it was not necessarily bad, as it helped control inflation by lowering aggregate demand, stimulating savings and channeling resources in to the most productive areas.

Low interest rates, he said, can only be achieved through treating the underlying cause of it - inflation. "You can't do it by sitting on interest rates" he said.

However others disagreed on the desirability of high interest rates even though the cause was not in dispute.

They said it stifled investment which would seriously hamper the creation of employment and also help raise costs. "High interest rates," Dr. Nicholas said, "was great for banks but bad for everyone else."

The government's commitment to a market oriented economy was seen as major positive factor for the capital markets. It suggested a consensus among the major political parties of the country. "One should not mechanically extrapolate doubts about the budget to further doubts about the market." Dr. Nicholas said, "because the markets are about the fundamentals of the economy and not about the budget". With a predicted GDP growth rate of around 5 per cent the economy could not be said to be "a basket case" he said.

"When the market has hit 800, investors should seriously look at Sri Lanka" he concluded.

Cashew nut: a knotty issue

A non-profit organization involved in improving the quality of cashew nuts at producer level says, exporters are unwilling to promote the production of higher quality cashew by paying a slightly higher price.

Vishaka Hidellage, project officer of the Intermediate Technology Development Group (ITDG) said two pilot projects they carried out in the villages of Vanathavillu in the Puttlam district and Vijekatupeetha in Chilaw had helped improve the quality of cashew nuts, but the farmers had been unable to derive the financial benefit of a premium price for their produce.

Ms. Hidellage said micro-level producers had shelled cashew according to the traditional method of beating with a wooden mallet, and sold their produce to the middlemen. The

middlemen, she said had encouraged micro-producers to engage in various undesirable practices such as pasting two halves of cashew nuts together with various adhesive materials ranging from sago eggwhite to chemical adhesives. This, she said led to discolouration and fungal growth at a later date, in addition to affecting the taste. All this Ms. Hidellage said would tarnish Sri Lanka's image abroad.

Though the Sri Lanka Standards Institution had at one time carried out an export certification scheme, the scheme had been abandoned twice due to lobbying by a section of the cashew exporters.

The middlemen who bought the shelled cashew nuts from the producers, then roasted the nuts and sold it to exporters. The ITDG

had then stepped in by providing a special oven or dryer in which the micro-producers themselves had learnt to roast the cashew, and sell it direct to exporters. Ms. Hidellage was appreciative of the support given by companies such as Stassen Exporters in purchasing roasted cashew direct from the producers.

With the elimination of the middlemen the producer was able to get up to Rs. 35 a kilo, a higher price than what he got by selling the raw cashew, she said.

As a result, more cashew producers had shown interest in adding value to their products, and in the next season another 10 villages are likely to join them, Ms. Hidellage revealed.

She said cashew was being exported mainly to the Middle East, but Sri Lanka was unable to

penetrate the higher-priced European and Japanese market due to higher quality standards that are asked for. However she said if higher quality unadulterated cashew continued to be paid the same price as that paid to middlemen who marketed lower quality cashew, the micro-producers will lose the incentive to maintain quality and Sri Lanka may never be able to penetrate the European and Japanese market that paid premium prices for quality.

To create an awareness of the issues involved and evolve solutions, the ITDG had organized a seminar with the help of the Sri Lanka Cashew Corporation and Export Development Board. The seminar is to be held later this month with the participation of various groups that represented the cashew trade, Ms. Hidellage said.