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Prof. RPIR Prasanna

Preface

The policy briefs are a key tool to dispense research and recommendations to the policymakers in non-technical ways. It makes an opportunity to provide evidence-based policy advice to help readers make informed decisions. Thus, policy briefs are very distinctive in their focus on proclaiming the practical implications of researches to specific audiences. In this context, the Department of Economics developed its very first volume of policy briefs from the research works conducted by the final year undergraduates in the BA (Hons) Degree Program in Economics in the Department of Economics under the dissertation. The purpose of publishing policy briefs of economics research in the Department of Economics is two-fold. First, it is expected to disseminate the research findings of final year undergraduates' research work in a non-technical way to the decision-makers and general public. Second, the department expects to encourage younger undergraduate researchers in economic research providing a platform to disseminate their research findings to a wider audience, specifically to the economic policymakers.

The first volume of policy briefs of economic research of the Department of Economics contains twenty-six briefs developed in different branches of economics. Specifically, the briefs contained this volume provide policy recommendations concerning a vast range of fields such as entrepreneurship, issues in financial markets, capital market development, issues in agriculture - energy usage, marketing, economies of scale, value addition, youth participation, and land fragmentation- e-commerce and banking, SME development, tourism, rural development, regional trade agreements and etc. Thus, acknowledgment of those recommendations at the policy-making level would have a convincing impact on the country's economic development, as those recommendations are based on findings of undergraduate original research works. Hence this endeavor of the Department of Economics would apprise noteworthy considerations about common potential barriers, strategies and options for addressing the current fragile economic situation of Sri Lanka.

Content

Department of Economics

Faculty of Social Sciences and Humanities, Rajarata University of Sri Lanka

Policy Brief 01

Vol. (1) January 2021 **ISNN 2827-7376**

Factors affecting the entrepreneurial intention of undergraduates in the art stream in Sri Lanka: a case of Rajarata University of Sri Lanka

Key Message(s)

[1] Attitudes and perceived behaviour control affect the entrepreneurial intention of the undergraduates in the art stream.

[2] It is recommended to design new course units to the needs of creating entrepreneur, to organise and continue entrepreneur training programmes in universities for the undergraduates during their academic period through experienced and well-known entrepreneurs in Sri Lanka.

WMNP Wijesuriya & RPIR Prasanna

Department of Economics, Rajarata University of Sri Lanka

Introduction

Entrepreneurial activities significantly contribute to the growth and development of any economy in the modern era by bringing innovation for business process, cultivating small and medium enterprises culture, improving economic structures, and creating jobs. At present, entrepreneurship is recognised as an effective tool in addressing the unemployment issue among graduates. The national audit report 2020 revealed that about 2.4% of graduates are self–employed, and the unemployment rate of Sri Lankan university graduates was 32.1% in the academic year 2016/2017. The unemployment rate among the graduates in the art stream is high. Especially, art graduates wait unemployed for a long time due to their high intention of securing a government sector job. It is a massive burden on the government budget that leads to inefficiency and productivity decline in the government sector. In this connection, one of the tools the higher education institutions can apply is to improve the arts graduate intention to start up new business ventures upon graduation. Thus, this study's central aim is to investigate the factors affecting the entrepreneurial intention of the art stream undergraduates in Sri Lanka.

Materials and methods

The study's data was drawn from a survey carried out among 140 final year students in the Faculty of Social Sciences and Humanities, the Rajarata University of Sri Lanka, by administering a structured questionnaire. The methodological framework for the study was developed using the existing knowledge in the field. Accordingly, three independent variables were determined - attitudes, subjective norms, and perceived behaviour control – in the model, which affect the entrepreneurial intention of art graduates. The data analysis part of the study employed the structural equation modelling technique.

Results

The study results revealed that attitudes (A) of undergraduates is more influential than the subjective norm (SN) and perceived behaviour control (PBC) on entrepreneurial intention. The results showed that the absolute value of attitudes (A) is 0.000, which is less than 0.001. The regression weight for 'A' in predicting I (Entrepreneurial Intention) is significantly different from zero at the 0.001 level. The absolute value subjective norm (SN) is 0.639. The regression weight for 'SN' in predicting I (Entrepreneurial Intention) is not significantly different from zero at the 0.05 level. The absolute value of perceived behaviour control (PBC) is 0.024, and the regression weight for 'PBC' to predict I (Entrepreneurial Intention) is significantly different from zero at the 0.05 level.

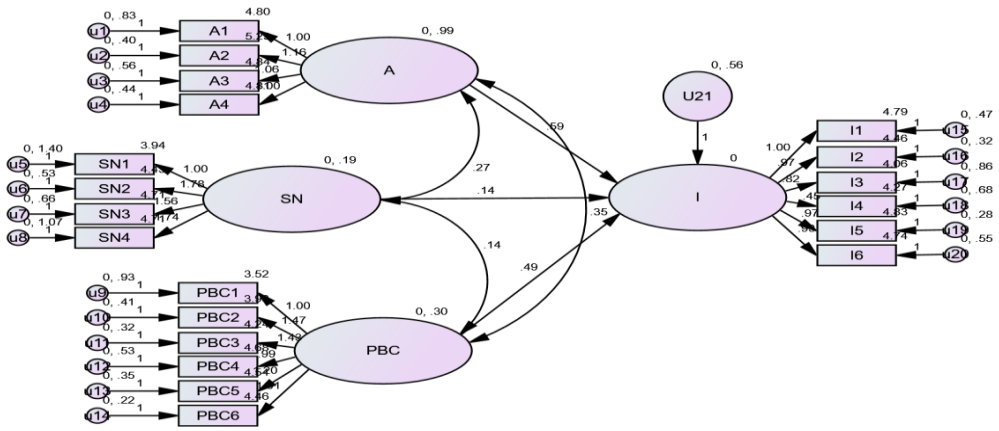

Figure 1: The results of structural equation modelling with standardised coefficient.

Note: A, attitudes; SN, subjective norms; PBC, perceived behaviour control; I, entrepreneurial intention P<0.05, P<0.001

Conclusion and policy recommendation

According to the study findings, attitudes (A) and perceived behaviour control (PBC) affect the undergraduates' entrepreneurial intention in the art stream, while subjective norms (SN) has no statistically significant impact on entrepreneurial intention (I). Thus, the study recommends designing new course units by assessing the needs of creating entrepreneur to organise and continue entrepreneur training programmes in universities for the undergraduates during their academic period through experienced and well-known entrepreneurs in Sri Lanka. Acquiring such proficiency during the academic period will motivate art graduates to start entrepreneurial carrier upon graduation.

Department of Economics

Faculty of Social Sciences and Humanities, Rajarata University of Sri Lanka

Policy Brief 02

Vol. (1) January 2021 **ISNN 2827-7376**

Causes of loan defaults among microcredit recipients in Kurunegala District, Sri Lanka: a Logistic Regression Analysis

Key Message(s)

[1] Business informality and non-monitoring of loans cause loan default of microcredit recipients.

[2] MFIs should analyse the business position of the microcredit customers before taking decisions to issue loans.

[3] Implementation of a better monitoring mechanism with proper business guidance will improve the microcredit recipients' repayment ability.

WMMM Wickramasingha & RPIR Prasanna

Department of Economics, Rajarata University of Sri Lanka

Introduction

Microcredit is simply the credit provision only in the form of small loans or microloans for supporting microenterprise and other income-generating activities, particularly of the poor. It is a tool that enhances the economic wellbeing of people in the low-income strata in society and is an important strategy that helps reduce poverty in many countries across the globe. In Sri Lanka, the microcredit sector has expanded significantly during the last couple of decades. Currently, there is a wide range of microcredit providing institutions, including co-operative societies, Non-governmental Organisations (NGOs), and development banks such as the Regional Development Banks (RDBs) and Samurdhi Bank. Microcredit loan default has become a common issue to many Micro Finance Institutions (MFIs) operated in Sri Lanka, which slow down the growth of the microfinance sector and is a severe challenge to the sustainability of the MFIs. Thus, this study's primary attempt was to investigate the causes of loan defaults among microcredit recipient in Sri Lanka by considering a typical district in the country.

Materials and methods

The study selected the Kurunegala district as the study area as it is one of the districts which reported high microcredit loan default. The study's data were drawn by interviewing 100 microcredit recipients, selected from five microcredits institutions via systematic sampling method, using a structured questionnaire. A Binary Logistic model was used to determine the factors influencing the high loan defaults among microcredit recipients. The model was specified as follows:

$$Li = Ln(Pi/1 - Pi) = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta 3X3 + \mathrm{ui}$$

Where Li is the Log of odd ratio, (Pi /1-Pi) is the ratio of the probability of microcredit recipients being a defaulter to the probability of microcredit recipients

not being a defaulter, X1 is characteristics of microcredit borrowers (age, education, marital status and gender), X2 is factors of a high loan default (non-monitoring of loans, less concentration of decision making, and poor training staff), X3 is business informality (Business failures, unfavourable payments, high-interest rates, and inadequate loan sizes), and Ui is the error term.

Results

The "pseudo R2 measured the goodness of fit of the model", and it is 20%. Collectively, all coefficients are statistically significant at a 1% level since LR statistics are 28.69 with a *p*-value of 0.0014. According to the final results, the variables Business informality and Non-monitoring of loan by the officer (under the factors of high loan default) are significant at 1% and 5% levels, respectively, and positively correlated with the dependent variable – loan default.

Further, one unit increase of the business informality increases odds favouring microcredit default by 10.850 or 85%. One unit increase of non-monitoring of the loan increases odds favouring microcredit default by 1.557 or 56%. Meanwhile, borrower's characteristics do not affect loan default among microcredit recipients because all indicators of borrower's characteristics are not statistically significant in this model.

Table 1: Results of Logistic Regression model

Logistic regression — Number of obs = 100; LR chi2(10) = 28.69; Prob > chi2 = 0.0014; Log likelihood = -54.248155; Pseudo R2 = 0.2091

microcredi~t	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
age	.1022403	.3094371	0.33	0.741	-.5042453	.708726
education	.1097417	.590728	0.19	0.853	-1.048064	1.267547
maritalsta~s	-.6543787	.606346	-1.08	0.280	-1.842795	.5340376
gender	-.251359	.5042534	-0.50	0.618	-1.239678	.7369595
businessfo~y	2.384232	.6456062	3.69	0.000	1.118867	3.649597
financialo~o	.4428688	.228616	1.94	0.053	-.0052102	.8909478
thefinanci~o	.3288045	.2635587	1.25	0.212	-.187761	.84537
afterthebo~e	.4109785	.222715	1.85	0.065	-.0255348	.8474918
generallyf~i	-.2867629	.3048285	-0.94	0.347	-.8842157	.3106899
financiali~e	-.3119727	.4176694	-0.75	0.455	-1.13059	.5066442
_cons	-8.984194	3.124549	-2.88	0.004	-15.1082	-2.86019

Conclusion and policy recommendations

The study revealed business informality and non-monitoring of loan as the cause of loan default of microcredit recipients in the survey area. Thus, it is suggested that MFIs should analyse the microcredit customers' business position before deciding to issue loans. Further, implementing a better monitoring mechanism with proper business guidance will improve the microcredit recipients' repayment ability.

Department of Economics

Faculty of Social Sciences and Humanities, Rajarata University of Sri Lanka

Policy Brief 03

Vol. (1) January 2021 **ISNN 2827-7376**

Farmers' perspective on energy neutrality in agriculture in Sri Lanka: a qualitative study in the up-land farming system in Rajanganaya Agriculture Settlement Scheme

Key Message(s)

[1] Water contamination, soil infertility, air pollution, extinction of eco-friendly animals, adding toxins to vegetables, health problems, high cost, educational issues, and loss of rapport were revealed as adverse effects of modern energy usage in farming in the area.

[2] The study found bioenergy, solar energy, wind energy, hydro energy, and organic fertilizer as the most viable and adaptable alternative energy sources for farming in the area.

NGSK Nagoda & RPIR Prasanna

Department of Economics, Rajarata University of Sri Lanka

Introduction

Today, agriculture heavily relies on fossil fuel-dominated external energy sources, making it highly challenging to achieve energy neutrality. The climate change debate has found evidence that fossil fuels have the most significant human impact, contributing to 80% of human greenhouse gas emissions. Green Revolution-style farming or agrochemical-based farming has worsened food security status in Sri Lanka. Chemical farming systems and their wastes have caused considerable damage to the environment, natural resources, and health status of Sri Lanka farming communities. According to the World Health Organisation (2012), 15-30% of the current population of the North Central Province are facing kidney diseases. However, existing studies do not adequately support how to increase the rate of returns in agriculture by reducing the adverse impacts of energy consumption and consuming less energy. Thus, this study's objectives were to investigate the relationship between energy usage and rate of return in agriculture in the Dry zone of Sri Lanka and identify environmentally friendly alternative energy sources for food production in the survey area.

Materials and methods

The study was performed in the upland farming system in the Rajanganaya Agriculture Settlement Scheme area from October to November 2020. A qualitative approach was employed in the data collection due to the nature of the study problem – mainly to investigate the direct and indirect impacts- and in this connection, a pre-tested interview guide was used for in-depth interviews conducted via a telephone call. Interviews were held with fifteen farmers since, at this number, the study met the data saturation level. Farmers for the interviews were selected by employing purposive sampling

techniques. Interviews were recorded and then transcribed. The thematic interpretive, analytical technique was used in qualitative data analysis.

Results

The study identified fuels such as kerosene, diesel, petrol, and electricity as the main energy source of agriculture. A thematic analysis of qualitative interviews revealed positive effects (i.e., facilitate tasks, saves time, cost reduction, adaptability to the present, protection and increased productivity), and negative effects (water contamination, soil infertility, air pollution, extinction of eco-friendly animals, adding toxins to vegetables, health problems, high cost, educational issues, and loss of rapport) of modern energy usage in agriculture. The areas which used centralised modern energy were water compilation (T1), agricultural machinery (T2), fertilizers (T3), pesticides (T4), transportation (T5), farm protection methods (T6), and storage (T7).

Table 1: Alternative potential energy usage in agriculture – farmers' point of view

Alternative energy source	Effective areas in energy usage
Use of organic fertilizer	T3
Use of natural substances instead of pesticides	T4
Use of bioenergy	T1, T2, T5, T6, T7
Insect repellent net	T4, T6
Cultivation protection methods from wild animals	T6
Use of non-fuel consuming machines	T1, T2, T5
Use of human labour	T2
Solar energy	T1, T2, T5, T6, T7
Wind energy	T1, T2, T6, T7
Hydro energy	T1, T2, T6, T7
Eco-testing for machinery	T2, T3, T4

According to the farmers' perspective, the study revealed bioenergy, solar energy, wind energy, hydro energy, and organic fertilizer as the most viable and adaptable alternative energy sources for farming in the area. Lack of knowledge about alternative potential energy sources in the area and technological and financial capital limitations have constricted farmers move to alternative environmentally-friendly energy usage in farming activities in the area.

Conclusion and policy recommendations

From the in-depth discussion and thematic analysis of the qualitative data, the study revealed that modern energy usage in farming activities negatively impacts the sustainability of the farming system in the area. Thus, changing the energy mode in the area is essential. In this connection, authorities recommended promoting bioenergy, solar energy, wind energy, hydro energy, and organic fertilizer among the farmers in the area while enriching their knowledge about the merits of such sources and addressing technological and financial capital limitations in adopting new methods.

Department of Economics

Faculty of Social Sciences and Humanities, Rajarata University of Sri Lanka

Policy Brief 04

Vol. (1) January 2021 **ISNN 2827-7376**

Relationship between macroeconomic variables and stock market performance in Sri Lanka: a time series analysis

Key Message(s)

[1] The study confirmed a long-run negative relationship between ASPI and CCPI and MS, a positive relationship between ASPI and TB.

[2] Granger causality test showed that TB granger causes ASPI and PC granger causes CCPI.

[3] Macroeconomic stabilisation policies are encouraged in the economy to stimulate investment in the CSE.

MMWS Rathnapala & RPIR Prasanna

Department of Economics, Rajarata University of Sri Lanka

Introduction

In a stock market, investors buy and sell shares, bonds, equities, and various types of securities. Some investors avoid investing directly in companies because they cannot easily withdraw their money whenever they want—but through the financial stock market, investors can buy and sell stocks quickly with more independence. After the civil war in 2009, Colombo Stock Exchange (CSE) has had healthy growth due to the peaceful environment. Specifically, an increasing share price trend was reported until 2014, followed by a declining share price trend (see Figure 1). However, the literature provides very few studies that explain the factors affecting the volatility of stock prices. Thus, this study aims to identify the relationship between macroeconomic variables and stock market performance in Sri Lanka.

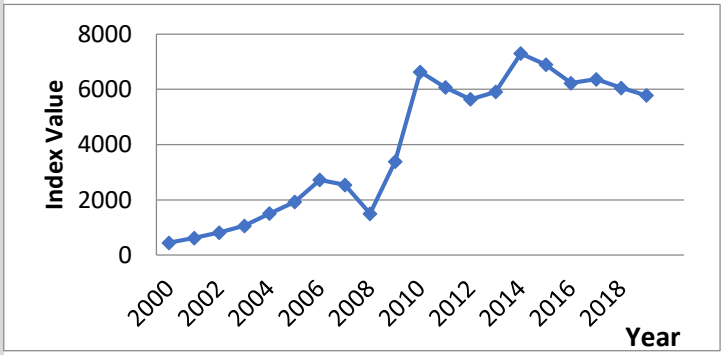

Figure 1: Trend of index value in Colombo Stock Exchange

Materials and Methods

The study used quarterly time series data for the period from 2009 to 2019. A time series econometric approach was used to estimate the following model to achieve the study objective.

$$LnASPI_t = \beta_0 + \beta_1 LnCCPI_t + \beta_2 LnTB_t + \beta_3 LnMS_t + \beta_4 PC + u_t$$

Where ASPI – All Share Price Index; CCPI – Colombo Consumer Price Index; TB – Three Month Treasury bond rate (Proxy to the interest rate); MS – Money supply; PC – Political change (dummy variable: 0 for before 2015 and 1 for after 2015); and Ut – error term.

Results

The Augmented Dickey-Fuller (ADF) test and Phillips Peron unit root test results revealed that the variables are integrated of the order $I = (1)$. Thus, the next step was to confirm whether there is a long-run equilibrium relationship among the variables incorporated in the model. The results of both Trace statistics and Maximum Eigen statistics showed the rejection of null-hypothesis – no cointegration exists – at a 5% significant level, indicating a long-run relationship among the variables. The test further confirmed the long-run negative relationship between ASPI and CCPI and MS at a 5% significant level. A positive long-run impact (0.142) was confirmed between ASPI and TB. The results of the Vector Error Correction Model indicated the positive effect of political change on ASPI. Granger causality test showed that TB granger causes ASPI and PC granger causes CCPI.

Table 1: Results of the Granger Causality test

Null Hypothesis:	F-Statistic	Prob.
LNCCPI does not Granger Cause LNASPI	1.71874	0.1835
LNASPI does not Granger Cause LNCCPI	0.36412	0.6955
LNMS does not Granger Cause LNASPI	0.35178	0.7041
LNASPI does not Granger Cause LNMS	2.01319	0.1379
LNTB does not Granger Cause LNASPI	5.62346	0.0046
LNASPI does not Granger Cause LNTB	1.42818	0.2436
PC does not Granger Cause LNASPI	0.35185	0.7041
LNASPI does not Granger Cause PC	0.87231	0.4205
LNMS does not Granger Cause LNCCPI	0.08739	0.9164
LNCCPI does not Granger Cause LNMS	0.37147	0.6905
LNTB does not Granger Cause LNCCPI	0.24941	0.7796
LNCCPI does not Granger Cause LNTB	1.06115	0.3492
PC does not Granger Cause LNCCPI	5.69091	0.0043
LNCCPI does not Granger Cause PC	1.83709	0.1636
LNTB does not Granger Cause LNMS	0.22014	0.8027
LNMS does not Granger Cause LNTB	1.73888	0.1799
PC does not Granger Cause LNMS	2.24265	0.1104
LNMS does not Granger Cause PC	2.15512	0.1202
PC does not Granger Cause LNTB	0.32490	0.7232
LNTB does not Granger Cause PC	1.48945	0.2295

Conclusion and policy recommendations

The study findings confirmed that stock market performance depends upon the key macroeconomic variables – interest rate, inflation, and money supply - and political factors. Thus, macroeconomic stabilisation policies are encouraged in the economy to stimulate investment in the CSE.

Department of Economics

Faculty of Social Sciences and Humanities, Rajarata University of Sri Lanka

Policy Brief 05

Vol. (1) January 2021 **ISNN 2827-7376**

Technological challenges facing the SMEs in Kurunegala District in Sri Lanka: an empirical study of agro-based industries

Key Message(s)

[1] The study revealed issues related to the low technological base of the SMEs as – the low quality of the production, less amount of production, high cost of production, low resource use efficiency in the production process, and low net gain.

[2] Obtaining technical assistance from government or non-government sectors is the main strategic approach of SMEs in facing technological challenges.

[3] Effective institutional intervention in supporting SMEs to meet the technological challenge is recommended.

BGKD Wijesiri & RPIR Prasanna

Department of Economics, Rajarata University of Sri Lanka

Introduction

Small and Medium Enterprises (SMEs) are recognised as the most influential sector in achieving sustained growth in any economy. The SMEs' contribution to social and economic development is detrimental and cited mainly in the literature regarding poverty alleviation, employment generation, women entrepreneurship, effective and sustainable utilisation of natural resources, mobilisation of local savings, assist to the MNCs and TNCs, etc. However, as noted in many literature works, SMEs' main problem in the economic globalisation era is that many SMEs fail to sustain their business in the competition. This is mainly due to the less ability of SMEs in facing competitive challenges, particularly technological challenges. Thus, this study aimed to study the challenges facing SMEs in upgrading their business's technological base.

Materials and methods

Data for this study were drawn from a field survey conducted among 30 agro-based SMEs. They were selected using the convenience sampling technique from Ibbagamuwa and Rideegama DS divisions in the Kurunegala district. The study narrowed down the research focus to the agro-based industries due to the high number of agro-based industries in the Kurunegala district. A field survey was performed from August to September 2020 by administering a semi-structured questionnaire. The questionnaire was mainly designed to elicit data on issues and challenges facing SMEs in upgrading their business's technological base. A descriptive statistical method was used as an analytical method of the study.

Results

Descriptive statistics of the surveyed SMEs revealed that the majority of entrepreneurs are male.

Also, 26 out of 30 industries are located in rural areas. The highest percentage of enterprises employ between 1- 5 workers. The analysis of technological-based challenges facing the agro-based SMEs in the area revealed four main obstacles: failure in introducing new products, high cost of new technical machines, issues in innovative marketing techniques required in the competition, and interruption of long-term existence. Further, the study found issues related to the low technological base of the SMEs in the study area. They are the low-quality productions, less production, high production cost, low resource use efficiency in the production process, and low net gain.

Finally, the study identified the adopted survival strategies by the SMEs in the competition. Those strategies are utilising skilled labourers, introducing updated technical machines to the production process, increasing the number of workers, utilising sales agents for marketing, and obtaining technical assistance from the related institutions. Among these strategies, the main strategies the entrepreneurs use in agro-based SMEs to successfully meet the technological challenge is to receive technical assistance from government or non-government sectors.

Conclusion and policy recommendations

The study revealed that SMEs in the survey area confront barriers in enriching their business's technological base, negatively affecting the SMEs' performance. Thus, it is recommended to support the SMEs to meet the technological challenges by the related institutions.

Department of Economics

Faculty of Social Sciences and Humanities, Rajarata University of Sri Lanka

Policy Brief 06

Vol. (1) January 2021 **ISNN 2827-7376**

Assessment of the Impact of SAFTA Regional Trade Agreement on Sri Lanka's Trade

Key Message(s)

[1] SAFTA regional Trade agreement has a positive effect on Sri Lanka's exports.

[2] Although South Asian countries made a significant trust for economic integration, the step of its implementation remains low.

[3] Sri Lanka gains much more market access from bilateral trade agreements within the same regional bloc.

G.A.A. Lakshani & H.A.B.W. Hettiarachchi

Department of Economics, Rajarata University of Sri Lanka

Introduction

Regional economic cooperation attracts growing interest in international economics and politics. Regional economic integration means agreements between countries in a geographical area to reduce tariffs and non-tariff barriers to the free flow of goods, services, and production factors between countries and remove them ultimately. Further, the South Asian Free Trade Agreement (SAFTA) was signed to promote regional economic integration. The signing of this agreement has communicated a significant drive to regional integration in South Asia.

A literature gap is present related to the SAFTA regional trade agreement. Most research concerns are associated with utilising the trade agreement Sri Lanka signed. No study focuses exclusively on the effects of Regional Trade Agreements (RTAs) on the Sri Lankan Economy. The majority of these studies were conducted before the year 2015. As there are new trends and patterns associated with regional trade agreements after more than ten years of its implementation, it is essential to investigate the impact of SAFTA on Sri Lanka's trade.

Materials and methods

The gravity model of trade developed by Tinbergen (1962), which has become the key tool of applied international trade literature, guides this study.

The countries that signed SAFTA represents the population in this study. The secondary data were extracted from World Bank data, WTO database, and UN COMTRADE database.

Results

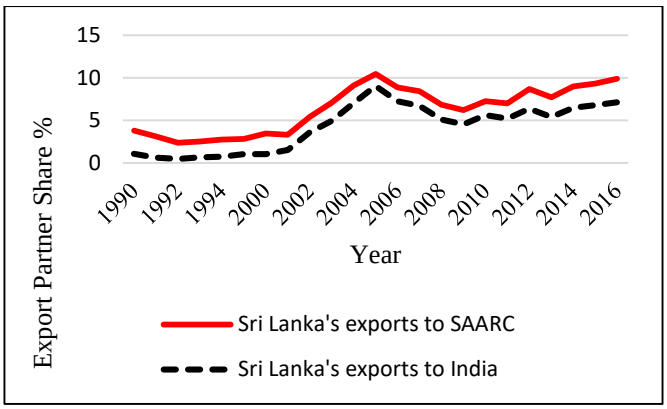

Figure 1: Sri Lanka's exports to SAARC and India 1990 – 2016

The data discussed above reveal that the SAFTA regional Trade agreement positively affects Sri Lanka's exports. The member countries received various trade opportunities after implementing the SAFTA agreement. Regarding the export structure, India has the same trend, and exports for other SAARC countries are in a minor range. Therefore, if Sri Lanka can increase the exports more than last years to India, in this study, SAFTA is a dummy variable introduce to measure the effect of regional trade agreements on Sri Lanka's bilateral trade. We expect its coefficient to be positive for SAFTA. If the trading partner belongs to regional trade agreements (i.e., SAFTA), it promotes more Sri Lankan trade. The coefficient of SAFTA is positive but significant at 10 per cent, which indicates the weaker relationship of RTAs on Sri Lanka's trade.

Conclusion and policy recommendations

This article examines the South Asian regional trade agreement's trade effect on Sri Lanka using the Gravity model of trade. The study mainly based on the SAFTA agreement enforced in 2006. The study used the descriptive analysis to produce the overall picture of South Asian regional integration and gravity model of trade using panel data from 2000 to 2016 as the analytical framework for measuring the impact of SAFTA on Sri Lanka's trade performance. The following conclusions are drawn from the analysis.

The results estimated by the Gravity model supported the optimistic view that RTAs are trade creating. Although South Asian countries made a significant trust for economic integration, its implementation remains low. Further, the descriptive analysis indicated that Sri Lanka gained much more market access from bilateral trade agreements within the same regional bloc.

Department of Economics

Faculty of Social Sciences and Humanities, Rajarata University of Sri Lanka

Policy Brief 07

Vol. (1) January 2021 **ISNN 2827-7376**

Assessment of the impact of trade liberalisation on export performance in Sri Lanka (with special reference to Indo-Sri Lanka FTA)

Key Message(s)

[1] Although Sri Lanka's exports to India have increased after signing ISFTA, the exports mainly concentrated on a few product categories. With the collapse of major two re-export products such as vanaspati and copper exports in 2008, Sri Lanka's total exports to India has declined substantially.

[2] While Sri Lanka's exports to India consist of primary goods classified under food and live animals (SITC 0), Sri Lanka imports consist of India's manufactured goods.

M.H.G. Muhandiram & H.A.B.W. Hettiarachchi

Department of Economics, Rajarata University of Sri Lanka

Introduction

Trade liberalisation is the reduction of tariff and other barriers. Trade liberalisation is generally perceived as the primary driving force behind globalisation (Lee, 2005). Although Sri Lanka has opened its economy intending to build up its economy via foreign trade, the country has not gained net trade benefits after the trade liberalisation except in 1978 (Nufile, 2012). In the second phase, Sri Lanka signed regional and bilateral trade agreements to promote its trade on a regional basis. South Asian Regional Economic Cooperation (SAARC) was formed in 1985, including seven member countries. SAARC introduced the South Asian Free Trade Area (SAFTA) to promote regional trade in 2004 with effect from 2006. Scholars have identified that SAFTA has a significant impact on the development of volume and value of Sri Lanka's exports in the SAARC region. As a trade agreement in SAARC, some scholars identified that SAFTA had diverted its trade in the area. This necessitates a country-wise analysis to understand the real picture of the improvement of Sri Lanka's exports. This study examines structural changes in export after the Indo-Sri Lanka Free Trade Agreement (ISFTA) in Sri Lanka. It particularly examines the impact of ISFTA on Sri Lanka's export performance and describes the effects of trade agreements on the export performance of Sri Lanka.

Materials and methods

The Gravity model of trade has been used for 30 years, from 1983 to 2013, to investigate the impact of SAFTA. The descriptive analysis explains the trade balance before and after implementing the ISFTA.

Results

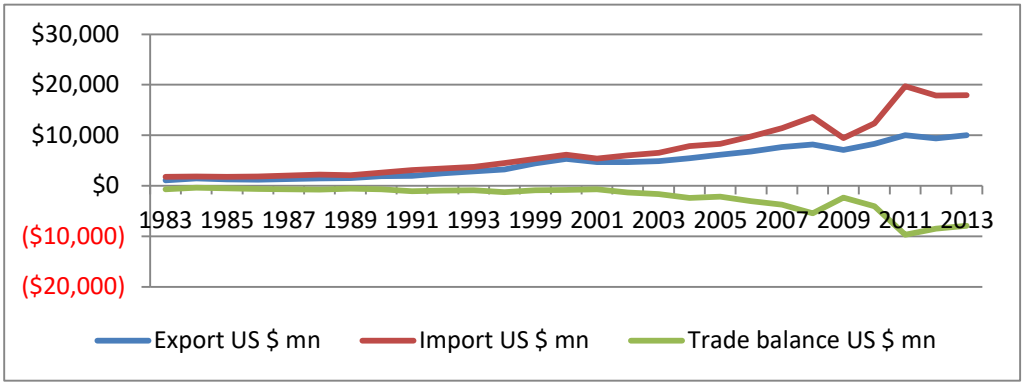

Figure 1: Trends of Sri Lanka's exports, imports, and trade balance: 1983 - 2013

The results indicate that Sri Lanka's exports have changed significantly after signing the ISFTA. Changes are both positive and negative for the country's exports. From 2005 to 2007, Sri Lanka has exported more to India under ISFTA. After the year 2007, exports have been decreased drastically because Copper and vegetable oil imports from Sri Lanka have been a contentious issue between the contracting states. In 2007, Sri Lankan exports to India were recorded as US$ 515829599, and it declined by the year 2009 to US$ 325022371. There is a small climb of re-exports after 1994, and after 2002, there was hit high of re-export to India.

According to the results obtained from the gravity model of trade, a significant positive relationship exists between ISFTA and the export performance of Sri Lanka. The partner country's GDP, the partner country's population, the distance between countries, and the exchange rate are also statistically significant in the model. Except for ISFTA, the GDPs of the partner country, and the exchange rate, all other variables negatively impact Sri Lanka's exports.

Conclusion and policy recommendations

Although Sri Lankan exports to India have increased after signing ISFTA, the exports mainly concentrated on a few product categories. Hence export diversification is needed. The value-added goods from Sri Lanka must be promoted instead of re-exports from other countries via free trade agreements.

Department of Economics

Faculty of Social Sciences and Humanities, Rajarata University of Sri Lanka

Policy Brief 08

Vol. (1) January 2021 **ISNN 2827-7376**

Competitiveness of Sri Lankan Exports in International Market: An Empirical Analysis

Key Message(s)

[1] Sri Lanka enjoys a comparative advantage in the exports of Ricardo and HO goods but does not enjoy a comparative advantage in exports of PC goods.

[2] Sri Lanka has failed to move from low value-added unqualified labour-intensive to technology-intensive high-value-added manufacturing.

[3] Sri Lankan exports should be further diversified.

K.K. Madusanka & H.A.B.W. Hettiarachchi

Department of Economics, Rajarata University of Sri Lanka

Introduction

Export is one of the most critical factors that could stimulate the development of a national economy. Export development is promoting economic growth and development (Saboniene, 2009, P. 49). Therefore, export development is favourable for small economies like Sri Lanka.

Sri Lanka exports a variety of products to the international market and imports various products that can be used as intermediatory goods for the finished goods and final finished goods. Although Sri Lanka involved in international trade for an extended period, the contribution to BOP from exports is still less. Therefore, it is vital to study the competitiveness of Sri Lanka's exports in the international market. This study attempts to analyse the competitiveness of Sri Lanka's exports in the global market. In this study, the researcher aims to identify the advantages of Sri Lankan exports based on the SITC classification at the disaggregated level.

Materials and methods

The study uses the Revealed Comparative Advantage (RCA) index, introduced by Balassa in 1965. RCA index assesses the competitiveness of Sri Lankan exports. According to Balassa (1965), the RCA index is defined as a country's share in global exports of a commodity/product divided by that commodity/product in the share of total worldwide exports. The Secondary data were collected from the UN COMTRADE database and WITS database at the disaggregated level as SITC 3-digit level for ten years from 2008 to 2017 is used to identify the international market competitiveness.

Results

According to the value obtained from the formula, the RCA value is grouped under three categories: weak

comparative advantage (2 >RCA), moderate comparative advantage (2 < RCA < 4), and strong comparative advantage (4 < RCA). Out of the 238 products used in this study, 64 products had an RCA value (RCA > 1) for at least one year. Out of those 64 products, 35 products have gained a comparative advantage for consecutive ten years. The other 29 products gained a comparative advantage in some years. The researchers identified Sri Lankan exports, where RCA values are greater than 10 for continuous ten years and compared them with major competitors in Asia and main partners worldwide. Those product categories were further analysed under four-digit levels. There are ten such products.

Conclusion and policy recommendations

In the Sri Lankan context, Sri Lanka enjoys a comparative advantage in the export of products based on agriculture or natural resources, such as tea, food, vegetables, rubber, tobacco, and wood. Especially the country benefits from a comparative advantage in products such as textile and clothing. These goods are produced using standard technology and characterised by lower costs in research and development.

The results suggest that Sri Lanka enjoys a comparative advantage in the exports of Ricardo and HO goods but not in exports of PC goods. Accordingly, Sri Lanka has a comparative advantage in exports of goods recognised as products that require low cost for research and development since advanced technology is already available. In addition, Sri Lanka does not have a comparative advantage in technology-intensive product categories.

Sri Lanka has still not reached the world map of advanced technology. In other words, Sri Lanka has failed to move from low value-added unqualified labour-intensive to technology-intensive high-value-added manufacturing. Therefore, the country should pay special attention to increasing its share in international trade with high-tech and value-added export productions. For this, it also requires consideration and investment in research and development.

Sri Lanka should introduce new diversified products to the international market because the country still lags in export diversification. Hence, diversifying Sri Lankan exports is another point that Sri Lanka must concentrate on for discovering new markets to enhance competitiveness.

Department of Economics

Faculty of Social Sciences and Humanities, Rajarata University of Sri Lanka

Policy Brief 09

Vol. (1) January 2021 **ISNN 2827-7376**

Sri Lanka - China trade relations: trends and the way forward

Key Message(s)

[1] Sri Lanka's trade deficit with China has expanded rapidly over the years due to massive imports than exports to China from Sri Lanka.

[2] Most Sri Lankan exports to China are primary products that do not use advanced technologies.

[3] Sri Lanka should diversify its exports as complementary to Chinese products.

W.I. Priyadarshani & H.A.B.W. Hettiarachchi

Department of Economics, Rajarata University of Sri Lanka

Introduction

Sri Lanka - China relations have been reinforced in the 21st century, and China is the major trading partner and investor in Sri Lanka (Central Bank Report, 2016). In this context, it also focuses on promoting free trade in Sri Lanka, increasing trade balance, and expanding exports to China. Many researchers have conducted several research studies on Sri Lanka-China trade relations. Most of them have evaluated the relationship between these two countries in a descriptive manner, but very few studies have focussed on expanding Sri Lanka's exports to China and its way forward through Sri Lanka-China trade relations. Almost no such studies have been conducted in the Sri Lankan context, and no reviews to study how the Sri Lanka-China trade relationship will affect the Sri Lankan economy and the future trade potentials. Hence, this study aims to identify the Sri Lanka-China trade relationship's current situation through the balance of trade and describe the export structure of the Sri Lanka-China trade relationship. It also aims to measure Sri Lanka-China's potential trade relationship in the future.

Materials and methods

The secondary data is used to identify the potential of Sri Lanka’s export to China. The time frame is 24 years from 1995 to. The descriptive analysis, the Revealed Comparative Advantage (RCA) Index, and the Autoregressive Distributed Lag Model (ARDL) were used to find the trend and way forward.

Results

The trade balance between the two countries is more favourable to China than to Sri Lanka. Accordingly, Sri Lanka's trade deficit with China has expanded rapidly over the years due to massive imports than exports to China from Sri Lanka. The study searched for a possible comparative advantage in the product categories exported by Sri Lanka. Sri Lanka has strong comparative advantages for textiles and clothing, footwear, agricultural raw materials, and textiles among the major exports. Meanwhile, vegetables, plastics or rubber, raw materials, and consumer goods have moderate comparative advantages. Products with weak comparative advantages include products such as food products, stone and glass, intermediate products, and minerals.

Table 1: ARDL model for Sri Lanka's trade with China

Variables	Calculated F Statistics	Significant level of F	Lower Bound I(0)	Upper Bound I(1)
Sri Lanka's Total Trade	9.276855	10%	2.37	3.2
		5%	2.79	3.67
Sri Lanka's Export	24.42531	10%	2.37	3.2
		5%	2.79	3.67
Sri Lanka's Import	11.59109	10%	2.37	3.2
		5%	2.79	3.67

The ARDL model has shown a long-run relationship with F-statistics value 9.06 in the ARDL bound test (Table 1). The Chinese exchange rate, GDP of China, and population were identified as essential variables determining Sri Lanka's trade.

Conclusion and policy recommendations

The persistent increase in the trade deficit is not suitable for the Sri Lankan economy. Therefore, steps should be taken to increase exports to China. The government should formulate new policies to improve the technical facilities to export high-quality products. Most of Sri Lanka's exports to China are primary products that do not use advanced technologies. Sri Lanka should diversify its exports as complementary to Chinese products, and Sri Lanka will export more products compared to other countries by improving the quality of our exports.

Department of Economics

Faculty of Social Sciences and Humanities, Rajarata University of Sri Lanka

Policy Brief 10

Vol. (1) January 2021 **ISNN 2827-7376**

Study on factors influencing the use of information and communication technology in SME sector: special reference to the SMEs in Hanguranketa DS Division.

Key Message(s)

[1] The cost of ICT negatively affects the ICT usage in SMEs. Besides, the Knowledge of ICT, availability of ICT infrastructure, and Perceived benefits positively affect the ICT usage in SMEs in Rural Sector.

[2] Manual billing systems, inventory control systems, and other manual processes should be reduced to increase the business process efficiency and reduce business costs.

[3] It is recommended to conduct ICT training programmes for employees to enhance ICT Knowledge.

AMGDS Premathilaka & HGKN Bandara

Department of Economics, Rajarata University of Sri Lanka

Introduction

Information and Communications Technology profoundly influence today's business world, and its application among businesses is widespread. ICT is rapidly changing global production, work, business methods, and trade and consumption patterns among enterprises and consumers. Every business must bring ICT into their business operation and take advantage of the benefits they offer.

As the world economy continues to moves toward increased integration due to advances in information communications technology and the increasing reduction in trade barriers, some excellent opportunities for small businesses will derive from their ability to participate in the regional and international markets. Nowadays, small businesses increasingly adopt information and communication technology due to the advent of Personal Computers, cost-effectiveness, and cheaper ICT products. But problems faced by the Sri Lankan Business in rural areas are the lack of ICT knowledge & awareness of Business owners and managers, inadequate infrastructure facilities, and insufficient government contribution. Thus, this study aims to identify the factors that influence the use of ICT in SMEs in Sri Lanka.

Materials and methods

This study is exploratory research and attempts to determine the factors that influence the use of ICT in SMEs in Sri Lanka. It gives particular reference to the SMEs in the Hanguranketa DS division. The primary data was collected using a field survey by applying a self-administered and structured questionnaire. Face-to- face interviews were held with 50 SMEs in the Hanguranketa Divisional Secretariat using a convenient sampling method. Secondary data were primarily collected from the official publications of government departments and

institutions. Collected data were analysed using descriptive and inferential statistical methods such as correlation test, Regression analysis and measures of central tendency, and T-Test.

$$Y_i = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + ui$$

Where

Y = Usage of ICT
X_1 = Cost of ICT
X_2 = Knowledge about ICT
X_3 = Infrastructure
X4 = Perceived Benefits
$\beta_0 \ldots\ldots\ldots \beta_4$ = parameters to be estimated
Ui = Error term

Results

Based on data analysis, most SME owners fall into agree level on a five-point Likert scale which indicates they have already adopted ICT for their business. Results revealed the cost of ICT has a negative impact on the usage of ICT in SMEs. Also, the ICT knowledge has to be enhanced both in business owners and employees. According to the estimated regression model, R square was 0.50 (50%), and adjusted R square was 0.456 (45.6%). The value of R square indicates that 45.6% variation of the dependent variable usage of ICT in SMEs is explained by the independent variables incorporated in the model. It means the Cost of ICT, ICT infrastructure, Knowledge about ICT, and Perceived benefits has 45.6% ability to explain the total variation of ICT usage. According to Regression Analysis, the F value is 11.254, and it is significant at 0.000 levels. The F value tests whether the overall regression analysis model fits the data. Unstandardised coefficient of ICT infrastructure and perceived benefits positively influence the usage of ICT in SMEs in the study area.

Table 1: Results of the regression analysis

R Square 0.500	Adj. R Square 0.456		Sig. value 0.000	F value 11.254		Collinearity statistics	
Model	Unstandardized coefficients		Standardized coefficients	t	Sig.	Tolerance	VIF
	B	Std. Error	Beta				
Constant	4.011	0.752		5.334	.000		
Cost	-0.629	0.131	-0.590	-4.790	.000	0.733	1.365
Knowledge	-0.065	0.154	-0.062	-0.424	.674	0.778	1.285
Infrastructure	0.247	0.150	0.197	1.649	.106	0.523	1.911
Benefits	0.157	0.140	0.157	1.122	.268	0.564	1.774

Conclusion and policy recommendations

The study revealed that the Cost of ICT negatively affects while Knowledge of ICT, availability of ICT infrastructure, and Perceived benefits positively affect the ICT usage in SMEs in the rural sector. SME owners should give priority to enhance

the knowledge of ICT in both owners and employees. Thus, the study recommends the following: SME owners should update their wisdom on new ICT trends and new practices within the industry and their competitors; Manual billing systems, inventory control systems, and other manual processes should be reduced to increase the efficiency of the business process and reduce business cost; and Conduct ICT training programme for employees to enhance ICT Knowledge of Employees. Further, the Government and policymakers should pay more attention to increase ICT infrastructures in rural levels and reduce the ICT operating costs.

Department of Economics

Faculty of Social Sciences and Humanities, Rajarata University of Sri Lanka

Policy Brief 11

Vol. (1) January 2021 **ISNN 2827-7376**

Analysis of factors influencing the individual Job Satisfaction among operational level employees in MAS Active Contourline in Pallekale

Key Message(s):

[1] Pay, work itself, recognition, the possibility of growth, and responsibility are applicable for job satisfaction.

[2] The pay system and work itself have a positive relationship with job satisfaction and recognition; the possibility of growth and responsibility negatively relate to the job satisfaction of the MAS Active Contour line.

[3] Reduce the additional workload, delegate responsibility, provide a pathway for promotions, reduce punishments for mistakes, labour division, appreciation, and the rewarding system for Job satisfaction.

NGMP Premarathne & HGKN Bandara

Department of Economics, Rajarata University of Sri Lanka

Introduction

Internal Customer Satisfaction is the acceptable strategy of any organisation. Employees of the organisation are crucial for achieving institutional goals, and no organisation can succeed without a certain level of commitment and effort from its employees. Organisations often attempt to satisfy their employees to obtain their commitment, contribution, and loyalty to achieve the institution's goals.

This study empirically evaluated the five dimensions of motivational factors (Pay, Work itself, Recognition, Possibility of growth, and Responsibility) and impact on the job satisfaction of the operational level employees in the apparel industry in MAS Active Contourline in Pallekale Industrial Zone. Thus, this study's objectives were to investigate the impact of motivational strategies on employee satisfaction, Identify expected motivational factors by garment sector employees, and study the current motivational factors by MAS Active Contourline.

Materials and methods

The study employed qualitative and quantitative approaches for data collection due to the study problem's nature and to identify the motivational impacts. The primary data of 100 operational level employees, selected using a simple random sampling method, were collected with a structured questionnaire. Secondary data were collected mainly from the official publications of relevant Institutions.

Collected data were analysed using descriptive and inferential statistical methods, such as multiple regression, correlation test, percentages, tables, graphs, and measures of central tendency, and T-Test.

Results

The study result indicated that the Pay system, Work itself, and Responsibility represented a significant relationship for individual job satisfaction. This company

has already applied those dimensions to achieve Internal customer satisfaction. Recognition and the Possibility of growth represented an insignificant relationship with job satisfaction, indicating that MAS active companies should pay attention to these factors to assure individual Job satisfaction. According to the multiple regression analysis, the Pay system and Work itself represented a positive relationship with job satisfaction. In contrast, Recognition, Possibility of growth, and Responsibility represented a negative connection with operational Level employee satisfaction.

Table 1: Results of Multiple Regression Analysis

Model		Unstandardised Coefficients		Standardised Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.098	.151		7.248	.000
	PAY	2.571	.225	2.598	11.439	.000
	WIS	.547	.063	.677	8.726	.000
	RECOG	-.170	.093	-.174	-1.824	.071
	GROWTH	-.387	.298	-.405	-1.300	.197
	RES	-1.817	.334	-1.885	-5.433	.000

a. Dependent Variable: SATIS
Source: Based on analysed data

Conclusion and policy recommendations

The study revealed that individual Job satisfaction is the most important factor that provides opportunities to achieve organisational Growth and Development with the commitment of operational level employees. Various motivational techniques are practised in job satisfaction in MAS Active Contourline. Pay system, Work itself, and Responsibility are already practised in MAS Active company to achieve the satisfaction of operational level employees. The study suggests that companies should prioritise their Recognition and Possibility of growth (future pathway) and provide other benefits such as promotion for the operational employees as to they do not have further career opportunities. Following recommendations can be made based on the research findings: 01) Reduce the additional workload of operational workers and hand-over the responsibilities, 2) Applied a performance-based evaluation system and provide a pathway for salary increment and promotions with their commitment, 3) Allocate sufficient time to do their tasks and give attainable targets, 4) Reduce the punishments for mistakes and appoint a correct person for each identified activities based on their skills which can be applied labour division strategy, and 5) developing an Appreciation and Rewarding system to motivate operational level employees further to achieve institutional growth and development.

Department of Economics

Faculty of Social Sciences and Humanities, Rajarata University of Sri Lanka

Policy Brief 12

Vol. (1) January 2021 **ISNN 2827-7376**

Factors affecting the customer adoption of Internet Banking in Sri Lanka-with special reference to Commercial Bank in Anuradhapura District

Key Message(s)

[1] The variables, i.e., convenience, reliability, accessibility, and awareness positively affects customer adoption of internet banking, while Security does not influence customer adoption of internet banking.

[2] The study suggested the following measures to improve the customer adoption of internet banking: introduce effective media advertising, provide a well-designed and user-friendly website, and provide information and instructions in English and Sinhala languages to attract customers.

SGMK Nawarathna & HGKN Bandara

Department of Economics, Rajarata University of Sri Lanka

Introduction

In the modern world, Internet Banking is an essential tool in the financial market, and it changes the lifestyle of the general public and business world. However, in the Sri Lankan context, Internet Banking usage and its adoption are at a very low level than offline banking usage. To ignore this situation, the bank must identify the factors influencing customer adoption of internet banking and directly address those factors. Thus, this study investigated the factors influencing the customer adoption of internet banking of Sri Lanka's commercial banks, specifically by considering the Convenience, Reliability, Accessibility, and Awareness of internet banking.

Materials and methods

The study is exploratory research that attempts to determine factors affecting the customer adoption of internet banking in Sri Lanka, with particular reference to Commercial Bank in Anuradhapura. Primary data for the study was drawn from a field survey administering a structured questionnaire. In this connection, face-to-face interviews were held among 100 banking customers from selected 05 Commercial Banks using a convenient sampling method in Anuradhapura District. Secondary data was collected primarily from the official publications of government departments and institutions. Collected data were analysed using descriptive and inferential statistical methods such as correlation test, percentages, tables, and graphs and measures of central tendency. Multiple regression analysis was used to assess the impact of factors influencing customer adoption on internet banking. The regression model was specified as follows:

$$Y_i = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + ui$$

Where Y = Customer Adoption on Internet Banking

X_1 = Convenience
X_2 = Reliability
X_3 = Accessibility to Internet
X_4- = Security
X_5 = Awareness
$\beta_0 \ldots\ldots\ldots \beta_4$ = parameters to be estimated
ui = Error Term

Results

According to the multiple regression analysis results, all other dimensions are significant except the variable Security. As *P* value (0.153) is greater than the significance level of 5% (α=0.05), it means the variable Security does not affect the customer adoption in internet banking while other independent variables (convenience, reliability, accessibility, and awareness) affect the customer adoption of internet banking.

The value of R2 indicates that the 75.2% variation of the dependent variable, the customer adoption of internet banking, is explained by the independent variables incorporated in the model. It means independent variables have a 75.2% ability to explain the total variation of internet banking adoption. Coefficients of the estimated regression model indicated that convenience, reliability, accessibility, and awareness are positively correlated with customer adoption of internet banking.

Table 1: Results of the regression model

Model		Unstandardised Coefficients		Standardised Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.479	.270		1.774	.079
	CON	.286	.069	.323	4.131	.000
	REL	.184	.068	.187	2.687	.009
	ACC	.158	.060	.217	2.626	.010
	SEC	.106	.073	.102	1.442	.153
	AWA	.138	.058	.221	2.377	.019

a. Dependent Variable: LCA

Conclusion and policy recommendations

The regression model results indicated that variables, i.e., convenience, reliability, accessibility, security, and awareness, positively affect the customer adoption of internet banking. Thus, the study suggests the banks consider these factors in their marketing programmes to increase the adoption of internet banking. In this connection, the study makes the following recommendations:
1) Educate potential customers by effective media advertising such as Radio, TV, Newspaper, leaflets, brochures, web pages, and social media, 2) Provide a well-designed and user-friendly website, and 3) Provide information and instructions in both English, Sinhala and Tamil languages to cater all parties in society.

Department of Economics

Faculty of Social Sciences and Humanities, Rajarata University of Sri Lanka

Policy Brief 13

Vol. (1) January 2021 **ISNN 2827-7376**

Effect of the marketing mix for consumer preference with special reference to Freelan Enterprises (Pvt) Ltd

Key Message(s)

[1] The study revealed that product, price, and promotion have a strong relationship with consumer preferences while the place has less impact on consumer preference for the "Freelan" brand.

[2] The study recommended producing superior products with superior features, higher taste and attractive packaging to attract customers. Also, the company should pay good attention to promotion activities with more attractive ways, i.e., organise roadshows, reality shows, advertising, 2 in 1 system.

WMMM Wickramasingha & HGKN Bandara

Department of Economics, Rajarata University of Sri Lanka

Introduction

Marketing is the process that identifies, anticipates, and satisfies customer requirements and profitably provide the products or services customers want, either now or in the future. The study of consumer preference towards a brand is becoming an interesting research area among scholars. Marketing mix can be considered as a major determinant of consumer preference, which is a business tool used by organisations with 4P's: **P**roduct, **P**rice, **P**lace, and **P**romotion, that help to satisfy the customers best. There are many research work in the western context. Still, only limited research is available in the Sri Lankan context to find the impact of the "Marketing mix" concept on consumer preference. Therefore, this study attempted to determine the effect of marketing mix on consumer preference regarding the country's selected brand.

Materials and methods

This study used both qualitative and quantitative methods to analyse the research problem. In this connection, we selected a typical company – Freelan Enterprises (Private) Limited – to determine the marketing mix's effect on consumer preference. The study defined its population as customers in the Chilaw area. Primary data were collected through a field survey by applying a self-administered and structured questionnaire. Face-to-face interviews were held with 100 consumers in the Chilaw DS division, using a convenient sampling method. Secondary data were mainly collected from the official publications of relevant institutions. Collected data were analysed by using descriptive and inferential statistical methods such as correlation test, Regression analysis and measures of central tendency, and T-test. The regression model was specified as follows:

$$Y_i = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + ui$$

Where Y is the dependent variable, X1 is the product, X2 is price, X3 is promotion, ui is the error term, and β denote the parameters to be estimated.

Results

The correlation analysis results revealed that all the independent variables except 'place' have a strong positive relationship with the dependent variable (product 0.827, price 0.746, and promotion 0.852). Place element of the marketing mix has a moderate association with consumer preference (0.432), and since 0.000 < 0.05, all relationships between the variables were significant at a 95% confidence level.

Table 1: Results of correlation analysis

Variable	Coefficient	P Value
Product	0.827	0.000
Price	0.746	0.000
Place	0.432	0.000
Promotion	0.852	0.000

R square value (0.862) indicates that the adopted independent variables of the model explain 86% of the dependent variable.

Product, Price, and Promotion have a strong relationship between consumer preferences; thus, these elements highly impact consumer preference while Place has a lesser impact on consumer preference for the "Freelan" brand. Therefore, the company can use the Product, Price, and Promotion elements to improve their brand's consumer preference.

Conclusion and policy recommendations

The study concluded that Product is the most influential factor. Thus the company should practise the following:

1) Produce superior products with improved features, better taste, and attractive packaging to draw customers.

2) Promotion is essential to increase consumer preference; thus, they should pay more attention to promotional activities. Their existing promotional campaigns should be organised to attract more customers, i.e., organising roadshows, reality shows, advertising, 2 in 1 system, etc.

3) They can charge reasonable and competitive prices compared with other substitute brands: price reduction, providing discounts.

Department of Economics

Faculty of Social Sciences and Humanities, Rajarata University of Sri Lanka

Policy Brief 14

Vol. (1) January 2021 **ISNN 2827-7376**

Factors affecting price fluctuation of vegetables in Sri Lanka

Key Message(s)

[1] The study revealed the per capita income as the factor which influence the vegetable price changes in the market in the last twenty years.

[2] It is recommended to set up a pricing mechanism to improve the consumer and producer surplus and change the country's per capita income.

EARM Edirisuriya & SKN Gamage

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Introduction

One of the major problems currently faced by vegetable farmers and consumers is the price change of vegetables, which happens for many reasons. Agricultural commodity markets have experienced increasing price fluctuations. The main reasons for these changes are supply and demand-side factors, including population growth and weather conditions. Agricultural commodity prices have fluctuated dramatically over the years, affecting both consumer and producer surplus. A major factor in the rise and fall of commodity prices in the market is the seasonal nature of most agricultural products. A slight change in the demand or supply of goods can cause market price fluctuations quickly. Vegetable price fluctuations at the market create uncertainty among farmers in the producer market, thereby affecting their welfare changes and investment decisions in vegetable farming. The rise of vegetable prices also affects all consumers in the market as it leads to deterioration of consumers' welfare. Thus, this study aimed to investigate the factors that influence vegetable price changes.

Materials and methods

Instead of obtaining information from farmers, this study uses secondary data extracted from the Economic and Social Statistics of Annual Publications of Sri Lanka and Hector Kobbekaduwa Agrarian and Training Institute. The analysis was performed using the above data, with three main vegetable types - brinjal, pumpkin, and carrot. The wage rate of agricultural workers, climatic conditions, and per capita income studied the impact of these vegetable prices.

Results

The following econometric model was employed to achieve the study objectives.

$$Y_i = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + ui$$

Where

Y1= Brinjal price fluctuations (Dependent Variable)
Y2= Pumpkin price fluctuations (Dependent Variable)
Y3= Carrot price fluctuations (Dependent Variable)
X1= per capita income
X2= wage rate in agricultural workers
X3= Climate conditions
Ui = error term

Table 1: Results of the estimated regression model

Dependent Variable	**Coefficients**	**P value**
Brinjal price (Y1)	X1=0.000, X2=-0.0001, X3=0.004	X1=0.001, X2=0.959, X3=0.175
Pumpkin price (Y2)	X1=0.000, X2=0.001, X3=-0.002	X1=0.001, X2=0.451, X3=0.461
Carrot price (Y3)	X1=0.0001, X2=0.0001, X3=0.004	X1=0.004, X2=0.983, X3=0.598

According to Table 1, the independent variable – per capita income, has a positive and statistically significant impact on prices of Brinjal, Pumpkin, and Carrot. The other two variables have no statistically significant effect over the dependent variable.

Conclusion and policy recommendations

The study findings revealed the per capita income as a factor influencing the vegetable price in the market during the last 20 years. We are witnessing a sharp rise in the prices of many vegetables today. Thus, it is recommended the government should regulate the prices of agricultural products, mainly at the farm gate, to address the widening gap between producer price and consumer price in the vegetable market. It is also recommended to transmit information concerning vegetable prices to the farmers before deciding on crop selection.

The researcher recommends that farmers should research before growing a particular agricultural product to find out the price trend and the quantity of output they produce. The government should also set a minimum price for selected agricultural products to buy from farmers in times of surplus and release them back to the markets in times of scarcity.

Department of Economics

Faculty of Social Sciences and Humanities, Rajarata University of Sri Lanka

Policy Brief 15

Vol. (1) January 2021 **ISNN: 2827-7376**

Impact of E-banking on the performance of small and medium-sized enterprises: a case of SMEs in Puttlam district in Sri Lanka

Key Message(s)

[1] The analysis revealed that the variables E-banking and Attitude have a positive and significant effect on SMEs' financial performance. The variable Computer literacy and Internet usage have a negative, insignificant relationship with SMEs' financial performance.

[2] The study recommended the banking sector undertake a simplex work-frame involved in e-banking services specific for SMEs. Further, the banking sector should organise training programmes on e-banking services for SME entrepreneurs.

EMSN Ekanayaka & SKN Gamage

Department of Economics,
Rajarata University of Sri Lanka.

Introduction

Small and Medium Enterprises (SMEs) play a leading role in economic development in developed and developing nations, specifically in terms of rising growth, innovation, and prosperity. E-banking means the supply of banking facilities and services through electronic delivery channels. E-banking supplies facilities such as checking accounts balance, quick transfer funds, use credit cards for transactions, ATM facilities, electronic bill payments, direct deposits, debit card purchase, and payment transactions. Like in other developing countries, SMEs In Sri Lanka also play a significant role in economic development, and the government estimated that SMEs account for approximately 80% of the country's business. E-banking habits change the SMEs from banking with new opportunities. Most SMEs are located in rural areas, and many reasons cause the low contribution and absence of e-banking services. However, no sufficient studies have attempted to realise the impact of e-banking services on SMEs' performance in Sri Lanka. Thus, this study aims to examine SME entrepreneurs' attitudes towards the adoption of e-banking services, to identify the key determinants that affect the intention to use e-banking by the SMEs and examine possible factors that discourage the SMEs entrepreneurs from using e-banking services.

Materials and methods

Primary data were drawn from fieldwork conducted in the Puttlam district from October to November 2020 to deal with study objectives. The qualitative and quantitative approaches were used in the data collection due to the nature of the problem – mainly to study the direct and indirect impacts of e-banking usage. The survey covered 50 SMEs selected from the database of small enterprise development in Puttlam.

A simple random sampling method was used to determine the population sample. Interviews were conducted by administering a semi-structured questionnaire via telephone. The main analytical techniques used in the study were descriptive statistical method and regression and correlation analyses.

Results

Results of the regression analysis indicated that E-banking and Attitude have a positive and statistically significant relationship with the financial performance of the SMEs. The variables Computer literacy and Internet usage have a negative but statistically insignificant relationship with the financial performance of SMEs. The possible reasons would be the low technical arrival of the respondents in SMEs.

Table 1: Coefficient table from the regression analysis

Model	**Unstandardised Coefficients**		**Standardised Coefficients**	**t**	**Sig.**
	B	**Std. error**	**Beta**		
(Constant)	1.032	0.317		3.255	0.002
Computer literacy	-0.545	0.063	0.631	8.589	0.681
E-banking services	0.176	0.065	0.199	2.725	0.008
Internet Usage	-0.082	0.052	0.107	1.598	0.113
Attitudes	0.528	0.082	0.711	8.421	0.032

Conclusions and policy recommendations

The study results revealed that computer literacy and internet usage are lower because of lower literacy and inadequate IT infrastructure facilities in Sri Lanka, discouraging SMEs from involving in e-banking services. The variables, E-banking services and Attitudes, indicated a positive relationship with the financial performance of SMEs. The results further revealed better attitudes of entrepreneurs towards e-banking services and the lack of familiarity of SMEs with e-banking services. Thus, it is suggested that the banking sector simplify the work frame involved in e-banking services specified for SMEs. Further, the banking sector should organise training programmes on e-banking services for SMEs, and the government must provide the ICT infrastructure facilities for the rural areas.

Department of Economics

Faculty of Social Sciences and Humanities, Rajarata University of Sri Lanka

Policy Brief 16

Vol. (1) January 2021 **ISNN 2827-7376**

Impact of paddy land fragmentation on productivity: a case of Kauduluwewa colony in Polonnaruwa district, Sri Lanka

Key Message(s)

[1] Land size and the number of plots significantly affect paddy land productivity. Land size and land productivity have a significant positive relationship, while the number of plots has a significant negative effect on productivity.

[2] Thus, it is recommended to increase the arable land size by adopting a land consolidation approach and impose restriction policies related to the subdivision of paddy lands.

[3] Alternatively, it is recommended the farmers adopt new farming techniques to overcome the productivity issue related to the land fragmentation problem in the country.

EHWBGD Edirisingha & SKN Gamage

Department of Economics, Rajarata University of Sri Lanka

Introduction

The land is the main factor in agricultural production, and land fragmentation is a common feature in many agrarian societies. In South Asian countries, the land has a close association with the people's livelihoods since the majority depends on agricultural activities. Land fragmentation's main impact is reducing the plot size below the threshold for mechanisation. Further, the high inter fragment distances increase the production cost by requiring relatively more time to move between fragments or make machinery use impossible.

Under land redistribution schemes, landless farmers were given equal-sized lowlands of five, three, and two acres in irrigated settlements in the dry zone of Sri Lanka. The initial land allocation was subdivided and distributed among the second and third-generation farmers. In Sri Lanka, a decrease in land sizes by 45-60% over 30 years after the establishment of settlement is observed. However, no one has studied the problem by considering the colonial socio-economic context in the country. Therefore, it is vital to find the impact of paddy land fragmentation on productivity rigorously. For satisfying this necessity, this study examines the implications of paddy land fragmentation on productivity, with special reference to the Polonnaruwa district.

Materials and methods

The study was conducted in the Kauduluwewa colony in the Polonnaruwa district from October to November 2020. A quantitative approach was employed for data collection due to the nature of the study problem. The selected sample consisted of fifteen paddy farmers. Primary data were collected using a standard questionnaire via telephone calls. It was administered to a random sample of household heads in the study

area in the year 2020. The multiple regression analysis models helped quantitative data analysis.

Results

The study applied regression analysis to identify the impact of independent variables (land size, number of plots, distance of the land, ownership of resources, and quantity of labour used) on the dependent variable (Productivity of paddy land). According to the results, the model showed a goodness-of-fit, indicated by the coefficient of determination (R^2) with a value of 0.780. The explanatory power of the predictors on productivity is 78%, and the adjusted R square is 75.5% between variables. The ANOVA table provides sufficient evidence to prove the model is fit.

Table 1: Results of the estimated Multiple Linear Regression Model

Model	B	Std. Error	Beta	t	Sig.
(Constant)	4.535	9.197		.493	.624
Land size	30.352	3.446	.797	8.809	.000
Number of Plots	-7.380	2.788	-.203	-2.647	.011
Distance of the land	-1.451	1.747	-.060	-.831	.411
Ownership of resources	-8.216	.000	-.005	-.059	.953
Quantity of labour used	.815	.557	.130	1.465	.150

The results of regression analysis revealed a negative effect of the number of plots (-7.380), the distance of the land (-1.451), and ownership of resources (-8.216) on paddy land productivity, while a positive effect of land size (30.352) and quantity of labour used (.815) on paddy land productivity. However, the variables, land size and number of plots, are only statistically significant at a 5% significant level.

Conclusion and policy recommendation

The study concludes the positive effects of land size on paddy land productivity. Thus, it is recommended to increase the arable land size by adopting a land consolidation approach. The number of plots has a negative effect on productivity. Thus it is recommended to impose the policies related to the subdivision of paddy land. Alternatively, the farmers are recommended to adopt new farming techniques to overcome the productivity issue related to the country's land fragmentation problem.

Department of Economics

Faculty of Social Sciences and Humanities, Rajarata University of Sri Lanka

Policy Brief 17

Vol. (1) January 2021 **ISNN 2827-7376**

Impacts of livelihood diversification of rural households on economic well-being: a case study of Deduru Oya reservoir, Sri Lanka

Key Message(s)

[1] The analysis revealed that the number of income sources, social capital, and technology positively impact the economic well-being of the rural households in the area.

[2] Thus, the study recommends promoting livelihood diversification strategic approaches to improve the economic well-being of rural households.

EMDN Ekanayaka & SKN Gamage

Department of Economics, Rajarata University of Sri Lanka

Introduction

Agriculture plays a vital role in the rural economy of Sri Lanka. Most Sri Lankan rural families are engaged in agricultural activities either on a full time or part-time basis. Traditionally, Sri Lankan farmers in the dry zone rely on surface water to satisfy their domestic and irrigation activities (Irrigation and Drainage). Deduru Oya dam is one central river basin in the Kurunegala District. The water resources area of the dam is about 2,420 km^2. It provides an opportunity for rural people to diversify their livelihood and gain income advantages, particularly income stability.

The literature arising from a variety of disciplines has confirmed that the Miyum Reservior in Beijing (China) have changed people's livelihood through increased efficiency of natural resource and land resource usage and thereby improving household well-being. No previous studies are available on this subject theme in Sri Lanka, especially on the Deduru Oya Dam.

For closing this knowledge gap, this study investigates the impact of livelihood diversification on the economic well–being of rural households through Deduru Oya Dam. Besides, the study identifies the key determinants influencing income diversification and other factors that affect the economic well-being of the rural household in the Deduru Oya Dam area.

Materials and methods

The field survey for data collection was carried out among rural households in Katuwannawa Grama Niladari Division and Walpaluwa Grama Niladari Division in Maho Divisional Sectorial base on the south canal of Deduru Oya reservoir from October to November 2020. A quantitative approach was employed for data collection due to the nature of the study problem –mainly to study the direct and indirect impacts- and in this connection, a questionnaire survey was held via telephone.

Thirty farmers were chosen for the questionnaire survey employing a simple random sampling method. Regression and correlation analytical techniques were used in quantitative data analysis.

Results

As presented in Table 1, the variables, i.e., number of income sources, social capital, technology, and irrigation activities, are statistically significant at 5% and 10% significance levels. The variables, i.e., the number of income sources, social capital, and technology, positively impact the economic well-being of rural households. In contrast, irrigation activities have a negative impact on household well-being.

Table 1: Results of Multiple Regression Analysis

Model	Unstandardized coefficients		Standardized coefficients	t	Sig.
	B	Std. Error	Beta		
Constant	.809	.065		12.544	.051
No. of income sources	.204	.014	.462	14.872	.043
Household size	-.119	.023	-.320	-5.203	.121
Social capital	.386	.032	.363	12.043	.053
Technology	.660	.061	.851	10.790	.059
Irrigation activities (Fishery amount)	-.010	.002	-.288	-6.015	.105

a. Dependent variable: Economic well-being

Conclusion and policy recommendations

The quantitative analysis of survey data revealed that the number of income sources, social capital, and technology positively impact the economic well-being of the rural households in the area. Thus, the study recommends promoting livelihood diversification strategic approaches to improve the economic well-being of rural households. Further, maintaining social capital via relationships with rural families are essential for economic well-being. Therefore, strengthening the groups and associations is vital for rural people to experience more benefits from livelihood diversification.

Department of Economics

Faculty of Social Sciences and Humanities, Rajarata University of Sri Lanka

Policy Brief 18

Vol. (1) January 2021 **ISNN 2827-7376**

The study of factors affecting the financial literacy of factory employees with special reference to Cobra Pvt Ltd, Galigamuwa, Kegalle District

Key Message(s)

[1] The study revealed the variables monthly income, age, education level, marital status, absence of debt, gender, number of family members, number of income-generating person in the family and living area as factors affecting the financial literacy of the industry workers.

[2] The employers of the apparel industry have different levels of financial literacy. Thus, the study recommended the industry management pay attention to increasing their employers' financial literacy as it affects sustain the industry performance.

KAG Vimalasena & JMG Lalani

Department of Economics, Rajarata University of Sri Lanka

Introduction

Financial literacy is defined as the ability to make informed judgments and make effective decisions regarding the use and management of money. Open economic policies introduced in 1977 in Sri Lanka changed the mode of work policies from import-substitution-oriented industrialisation to export-oriented industrialisation. This has created more employment opportunities for younger women in the tourism and labour-intensive industries, such as the factories in Export Processing Zones (EPZs). The apparel industry plays a prominent role in the Sri Lankan industrial sector, and it is the largest labour-intensive manufacturing sector of the economy. As studies revealed, the workers mostly struggle with continuing the work due to many reasons. Low savings is one of the issues discussed in the literature. It revealed that lack of financial literacy leads to owing significant amounts of debt and making poor financial decisions. Thus, this study attempted to identify the factors affecting the financial literacy of garment factory workers with special reference to Cobra Pvt. Ltd in Galigamuwa, in Kegalle district.

Materials and methods

For dealing with the research subject, primary data were drawn from an industry worker survey conducted among randomly selected 32 workers by administering a semi-structured questionnaire. The questionnaire was designed to elicit the data related to workers' knowledge of financial literacy. Various statistical tools, such as the Chi-square test and Correlation analysis, were used to identify factors affecting industry workers' financial literacy. The financial literacy level was considered the dependent variable, and employees' income, gender, education level, marital status, absence of debt, age, number of households, number of income-generating persons in the family, and living area, acted as

independent variables.

Results

Table 1 presents the results of various tests performed to assess the established hypothesis in the study. It shows that eight factors - income, gender, education level, marital status, absence of debt, age, income-generating persons in the family, and living area – affect the industry workers' financial literacy. There is no statistically accepted relationship between the number of family members and financial literacy; hence the alternative hypothesis was rejected.

Table 1: Results of the performed test to identify the factors affecting the financial literacy

Variable	**Method**	***P value***
Monthly income	Correlation	0.057
Gender	Independent sample t test	0.052
Education level	Chi-square test	0.003
Marital status	Chi-square test	0.010
Absence of debt	Independent sample t test	0.002
Age	Chi-square test	0.004
Number of family members	Correlation	0.245
Number of income-generating persons in a family	Correlation	0. 003
Living area	Chi-square test	0.003

Conclusions and policy recommendations

This study concludes the variables, i.e., monthly income, age, education level, marital status, absence of debt, gender, number of family members, number of income-generating persons in the family, and living area, as factors affecting the financial literacy of industry workers. The financial literacy level changes among persons, and according to this research, the employers of the apparel industry have different levels of financial literacy. Thus, the study recommended the industry management pay attention to increasing their employers' financial literacy as it affects the sustainability of the industry performance. Industry management should organise workshops and provide leaflets with an explanation of budget balancing.

Department of Economics

Faculty of Social Sciences and Humanities, Rajarata University of Sri Lanka

Policy Brief 19

Vol. (1) January 2021 **ISNN 2827-7376**

A study of the influence of macroeconomic variables on stock market performance with special reference to Colombo Stock Exchange

Key Message(s)

[1] The study's analytical results revealed that GDP has a significantly positive impact on stock market capitalisation while interest rate and exchange rate negatively affect the stock market capitalisation.

[2] Thus, the study emphasises the need for growth-oriented policies in the economy and stability in macroeconomic variables, particularly in the financial market.

RMBT Rajapaksha & JMG Lalani
Department of Economics, Rajarata University of Sri Lanka

Introduction

The stock market of any country acts as the mirror of its economy. The economic recession, depression, and financial crisis ultimately lead to a stock market crash or development. Markets where securities, such as shares and debentures, issued and traded by companies, are called 'Stock Market'. The stock market plays a significant role in the individual industry and investors who desire to gain maximum return on their savings. The stock market also acts as a measurement tool that assesses industrial growth and the economy's stability. Thus, this study aims to identify the impact of macroeconomic variables on stock market performance.

Materials and methods

This study used correlation analysis and multiple linear regression model as analytical tools in the data analysis process. The period covered by the study is 2010-2019. Effects of macroeconomic variables and stock market performance were studied using the multiple linear regression model as specified below:

$$SMP = a + \beta 1\ GDP + \beta 2\ CCPI + \beta 3\ TBR + \beta 4\ ER + \varepsilon$$

SME = Stock market performance (Market capitalisation)
GDP = Gross Domestic Product
CCPI = Colombo Consumer Price Index
TBR = Treasury Bill Rate
ER = Exchange rate
$\in$ = Error term

Results

Results of the regression analysis denote in equation (1). It revealed that the variable, Gross Domestic Product, positively affects the stock market performance and is statistically significant at a 5% significant level. The variables Treasury Bill Rate and Exchange rate negatively affect the stock market performance, and the p values of

the variables confirmed the statistically significant relationship. The study further revealed that Colombo Consumer Price Index does not impact stock market performance.

SMP = 3649.075 + .003GDP - 8.515CCPI - 50.113TBR -23.206ER + 205.59 ---------- (1)

Conclusion and policy recommendation

The study's analytical results revealed that GDP has a significantly positive impact on stock market capitalisation while interest rate and exchange rate negatively affect the stock market capitalisation. Thus, the study emphasises the need for economic policies to stabilise macroeconomic variables, particularly in the financial market.

Department of Economics

Faculty of Social Sciences and Humanities, Rajarata University of Sri Lanka

Policy Brief 20

Vol. (1) January 2021 **ISNN 2827-7376**

Study of the contribution of tourism income for the economic growth of Sri Lanka

Key Message(s)

[1] Analytical results of the study revealed that tourism income has a significantly positive impact on economic growth while inflation negatively affects tourism income for economic growth.

[2] Thus, the study emphasises the need for tourism policies to stabilise macroeconomic variables, particularly in the economic and financial market.

TMSN Thennakoon & JMG Lalani

Department of Economics,
Rajarata University of Sri Lanka.

Introduction

Many developing countries pay considerable attention to the tourism sector. Sri Lanka's government often perceived the tourism industry as a potentially promising source of economic growth and development and for promoting human development. Indeed, the tourism sector can be a major route through which the country can boost its export revenues, generating many jobs – both directly and indirectly – and creating employment for the young and women.

More so, the development of the tourism sector in a country fosters economic diversification and promotes a more service-oriented economy. In the economies where tourism is bullying, tourism-related activities play a critical role in generating tourism income, foreign direct investment, employment opportunities, as well as increasing gross domestic production. Thus, with an eye to clarify the relationships between tourism income and the economic growth of Sri Lanka, this study explores the significant variables contributing to tourism income and their relationships with the overall GDP.

Materials and methods

For accomplishing the research objectives, the quantitative approach was entrusted through secondary data based OLS regression analysis of the data from 1970 to 2019. Researchers identified the relationship between economic growth and tourism income in terms of four macroeconomic variables. The variable Political stability was incorporated in the model as a dummy variable.

$$\boldsymbol{\gamma i = \beta 0 + \beta 1 X1 + \beta 2 X2 + \beta 3 X3 + \beta 4 X4 + \beta 5 Di + \varepsilon}$$

$X1$=Direct and indirect employment.
$X2$ = Gross domestic production
$X3$ = Foreign direct investment

$X4 =$ Inflation

$Di =$ Political stability (0 for war period and 1 for non-war period)

Results

The tourism sector is viewed as one of the most important growth engines in the Sri Lankan economy with its locational and natural advantages and its unique tourism destinations.

The annual research statistics of 2019 reports tourism's total contribution to GDP as 12.6%. The contribution of tourism to Sri Lanka's GDP increased from 6% in 2000 to 12.6% in 2019, growing at an average annual rate of 4.28%. Tourism's total contribution to employment was increased by 3.9%. The contribution of tourism to employment growth in Sri Lanka fluctuated substantially in recent years; it increased through the 2000-2019 period ending at 3.9% in 2019. Here, the direct contribution of tourism to employment in 2019 (% of GDP) for Sri Lanka was 5.9%. It increased from 2.5% in 2000 to 5.9% in 2019, growing at a 5.18% average annual rate.

The regression analysis results show significant relationships among macroeconomic variables employed in the model and the economic growth of the Island. Stable political condition positively influenced tourism income.

Table 1: Results of the estimated regression model

Model		**Unstandardised Coefficients**		**Standardised Coefficients**	**T**	**Sig.**
		B	**Std. Error**	**Beta**		
1	(Constant)	-336.973	110.601		-3.047	.004
	DIE	.014	.001	1.187	10.622	.000
	GDP	23.948	6.804	.602	3.520	.001
	FDI	167.723	214.502	.065	.782	.438
	INF	-10.636	8.264	-.049	-1.287	.205
	PS	1260.711	287.949	.456	4.378	.000

Conclusion and policy recommendation

The study results confirmed the positive impact of tourism income on economic growth in Sri Lanka. Thus, the study recommends undertaking policies to establish favourable conditions for the tourism industry in the country.

Department of Economics

Faculty of Social Sciences and Humanities, Rajarata University of Sri Lanka

Policy Brief 21

Vol. (1) January 2021 **ISNN 2827-7376**

Factors influencing effective youth participation in agriculture as an occupation: with special reference to Galenbindunuwewa Divisional Secretariat Division, Anuradhapura District, Sri Lanka

Key Message(s)

[1] Financial facilities and Water/irrigation facilities are significant factors affecting effective youth participation in agriculture as an occupation.

[2] Most youths do not participate in agriculture because they have insufficient lands, agricultural machinery, agricultural inputs, financial facilities, and market facilities. Water/irrigation facilities in this area are in the medium level of sufficiency.

[3] The study recommended having effective measures to improve the net return of farming through expanding the scale, establishing efficient input and output markets, and improving the effectiveness of agriculture extension network, etc.

PWGSL Jayasinghe & SAU Niranjala
Department of Economics, Rajarata University of Sri Lanka

Introduction

Agriculture plays a vital role in the Sri Lankan economy. Currently, 25.5% of the total population mainly depends on agriculture and agriculture-related activities for their livelihoods (Labour Force Survey, 2018). According to Umesh et al. (2011) contribution of agriculture to farmers' income and rural development depends on the active participation of youth who are the potential labour force because of their innovative behaviour, minimal risk aversion, less fear of failure, greater physical strength, and greater knowledge acquisition propensity.

'Unemployment' can often be viewed with youth since most young people are either unemployed or underemployed. Lack of job opportunities, lack of education opportunities, deteriorating moral values, drugs, alcohol consumption, poverty, smoking, violence, and lack of mobility are the severe issues the youth confront (Ibarguen, 2005). Most of the younger population are unemployed or underemployed, and the rate is higher in females in Sri Lanka (Central Bank Annual Report, 2019). Most youths aim to migrate to urban areas for better employment opportunities and income, and rural regions are affected by poverty and hunger.

Therefore, rural people migrate to urban areas to solve poverty, hunger, and unemployment (Louw, 2004). It is challenging to attract youth into agriculture as an occupation. Thus, this study aimed to identify factors that influence effective youth participation in agriculture as an occupation in Sri Lanka by considering the farmers in the Galenbindunuwewa DS area.

Materials and methods

This study was based on youth in Galenbindunuwewa divisional secretariat division. Both primary and secondary data were used for the study. Primary data were collected from individuals by administering a structured questionnaire with interviews. Seventy-five youth in the age group of 15-29 years in five GN divisions were selected using the convenient sampling method. Fifteen youths were chosen from each of the selected five GN divisions. They were Yakalla, Padikaramaduwa, Nuwaraeli colony, Kurunegala Colony, and Nuwaragam colony. The binary Logistic Regression Model was applied to select factors.

Results

Table 1: Binary logistic regression analysis results

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 16[a]	Financial Facilities	1.119	.348	10.312	1	.001	3.062
	Water irrigation Facilities	1.830	.665	7.582	1	.006	6.236
	Constant	-10.051	2.712	13.731	1	.000	.000

According to the Backward Wald method, at the 16th step, only financial facilities and water/irrigation facilities were significant factors. In the Financial facilities factor, the p-value is 0.001<0.05. The financial facility significantly affects the effective youth participation in agriculture. In Water/irrigation facilities factor, p-value is 0.006<0.05. Water/irrigation facilities significantly affect the effective youth participation in agriculture.

$$\ln\left(\frac{P}{1-P}\right) = -10.051 + 1.119X1 + 1.830X2 + ui$$

Where

$\left(\frac{P}{1-P}\right)$ is the ratio of the probability

X1 = Financial facilities score

X2 = Water/irrigation facilities score

Ui = error term

A positive relationship exists between financial facilities and effective youth participation in agriculture. It reveals that for every one-unit increase in the financial facilities, the score increases odds favouring effective youth participation in agriculture by 1.119 or 12%, holding all other independent variables constant. Also, the Water/irrigation facilities score significantly affect the effective youth participation in agriculture. It further reveals that one unit increase in the Water/irrigation facilities scores increases odds in favour of

effective youth participation in agriculture as an occupation by 1.830 or 83%, holding all other independent variables constant.

Conclusion and policy recommendations

Financial facilities and Water/irrigation facilities are significant factors that affect effective youth participation in agriculture as an occupation. Of 75 youths, 44 were unemployed. Out of 75 people, 56 have not participated in agriculture, mostly females (38) and unmarried youths (33), under 25<= age <=29 groups of age (31) and highly educated (22). Most youths did not participate in agriculture because they lack sufficient land, agricultural machinery, agricultural inputs, financial facilities, market facilities, and water/irrigation facilities in this area are in the medium level of sufficiency. Three agricultural activities are prevalent here, as the cultivation of paddy, minor crops, and fruits.

The study recommends the government undertake adequate measures to improve the net return of farming through expanding the scale, establishing efficient inputs and output markets, and improving the effectiveness of the agriculture extension network. In this connection, youth must be provided with farm training opportunities and farming-related information to study new farming techniques such as adopting new technology, modern seed varieties, marketing, etc.

Department of Economics

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Policy Brief 22

Vol. (1) January 2021 **ISNN 2827-7376**

The impact of service quality on customer satisfaction: with special reference to the commercial banking sector in Anuradhapura district in Sri Lanka

Key Message(s)

[1] Tangibility responsiveness and assurance significantly affect customer satisfaction.

[2] Reliability and empathy insignificantly affect customer satisfaction.

HMCM Karunathilaka & SAU Niranjala

Department of Economics, Rajarata University of Sri Lanka

Introduction

Banks have formed an essential part in providing an avenue for both savings and investment. Commercial banks are a profit-seeking industry, so providing a better service quality is vital as banks must compete for customers. To survive in the industry, banks should satisfy the customer. In the banking industry, all banks provide the same service, but the deforestation between banks provides quality service and satisfaction.

Customer satisfaction is a critical differentiator and has increasingly become an essential element of business strategy. Suppose a bank wants to attract new customers and retain existing customers. In that case, the bank should differentiate from other banks by providing quality service to achieve their financial and other objectives. Therefore, the main aim should be satisfying the customer to achieve their goals. Service quality and customer satisfaction are the most important concepts for every industry, and customers are the most critical part of every industry, especially in the banking industry. Customers can determine the future of any industry that provides any good or service. Quality service is the key to success in every sector, and without fulfilling the customer wants and needs, they cannot achieve their goals and objectives efficiently.

Service quality is the degree of discrepancy between customers' normative expectations for service and their service performance perceptions. Five main determining factors of service quality can be identified as tangibility, reliability, responsiveness, assurance, and empathy—these directly affect customer satisfaction. Thus, the aim of this study is to identify the impact of service quality on customer satisfaction in the commercial banking sector in Sri Lanka.

Materials and methods

This study used a descriptive survey research design related to regression and correlation analysis method. It mainly considered the factors affecting customer satisfaction in the commercial banking sector in the Anuradhapura district in Sri Lanka. The respondents were selected using the convenience sampling method, and the sample represented 100 commercial bank users in the Anuradhapura district. The study used both primary and secondary data. Primary data were collected using a questionnaire.

Results

$$Y = 0.423 + 0.182X_1 + 0.127X_2 + 0.23X_3 + 0.233X_4 + 0.117X_5$$

Where
Y = Customer Satisfaction
X_1 = Tangibility
X_2 = Reliability
X_3 = Responsiveness
X_4 = Assurance
X_5 = Empathy

The R square of the model indicates the selected independent variable's explanatory power on the dependent variable. This means 0.74 of the R square showed that the five variables attributed 74.0% of total variations on customer satisfaction. According to the ANOVA table, the *p*-value is equal to 0.000. It is less than the critical *p*-value (0.05). Therefore, it can be concluded that there is sufficient evidence to prove the model is fit. This confirms that independent variables are suitable to explain the dependent variable.

Table 1: ANOVA table

ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Regression	23.615	5	4.723	55.757	.000[b]
Residual	7.962	94	.085		
Total	31.578	99			

Multiple regression analysis results revealed a positive relationship between all independent variables with the dependent variable, customer satisfaction, in the commercial banking sector in Anuradhapura district. However, the variables tangibility, responsiveness, and assurance, showed a statistically significant impact on the dependent variable as those variables are significant at 0.04, 0.004, and 0.009 levels, respectively. As per the results, the variable reliability and empathy have no statistically significant impact on customer satisfaction.

Table 2: Results of estimated regression model

Coefficients					
	Unstandardised Coefficients		Standardised Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.423	.258		1.642	.104
TANGIBILITY	.182	.089	.204	2.042	.044
RELIABILITY	.127	.089	.113	1.434	.155
RESPONSIVENESS	.230	.077	.227	2.979	.004
ASSURANCE	.233	.088	.285	2.651	.009
EMPATHY	.117	.080	.164	1.461	.147

a. Dependent Variable: SATISFACTION

Conclusion and policy recommendations

The study results indicated a positive impact of the variables, tangibility, responsiveness, and assurance on customer satisfaction of the commercial banking sector in Anuradhapura District. Thus, having measures to train employees to be more courteous, friendly, and helpful is beneficial to improve recruitment standards, specifically considering the interpersonal skills in the job specification. These measures will help to enrich customer satisfaction in the banking sector and ensure firm sustainability in a competitive environment.

Department of Economics

Faculty of Social Sciences and Humanities, Rajarata University of Sri Lanka

Policy Brief 23

Vol. (1) January 2021 **ISNN 2827-7376**

Factors affecting the rubber latex production among smallholder rubber farmers in the Kalutara district

Key Message(s)

[1] The study revealed positive effects of land size, fertilizer, and labour, and negative effects of acid cost on rubber production.

[2] It is recommended to increase the land size, labour and fertilizer to increase rubber production. Alternatively, the smallholding rubber producers are recommended to adopt new techniques and skilled labour to increase rubber production.

AHL Jayalath & SAU Niranjala

Department of Economics, Rajarata University of Sri Lanka.

Introduction

Sri Lanka is renowned as the world's leading natural Rubber manufacturer for natural rubber and rubber-based products. The principal manufacturers and exports related to natural rubber-based products in Sri Lanka are solid tires, sole crape for shoes, high-quality surgical gloves, etc. In 2018, the sector contributed USD 1 billion to Sri Lankan export revenue, and the country is aiming to increase the export value of the industry to USD 4.4 billion by 2024. According to the Agalawatta Rubber Research institute's (RRISL) statistical data, the small-rubber cultivators contribute over 63% of the national rubber production. This study aimed to study the factors affecting the rubber latex production of smallholder rubber farmers in Sri Lanka by considering a sampled farmer group in a typical district of the country.

Materials and methods

The study's data were drawn from a field survey conducted among 60 smallholder rubber farmers in 4 GN divisions – Mathugama East, Mathugama South, Yattovita Wettewa, and Wettewa in Mathugama DS division in Kalutara district. The interviews were held in the cultivators' houses using a structured questionnaire as a principal survey instrument. The study used Cobb Douglas's production function to find the relationship between production inputs and output used in the rubber cultivation of the small rubber cultivators in the Kalutara district.

$$\text{Ln } Y_i = \beta_0 + \beta_1 \text{Ln } X_{1i} + \beta_2 \text{Ln } X_{2i} + \beta_3 \text{Ln } X_{3i} + \beta_4 \beta 4 \text{Ln } X_{4i} + u_i$$

Where

Ln represents the natural logarithm, and the subscript i donate the i^{th} cultivator in the sample.

Y_i = Yield of rubber output/latex (l), X_{1i} = Land Extent (in Acres)

X_{2i} = Fertilizer Cost (Rs.), X_{3i} = Acid Cost (Rs.), X_{4i} = Labor Cost (Rs.)

Results

According to the frequency analysis, 80% of small rubber cultivators are males, and 20% are females because most women are engaged in household activities. It revealed that 73.3% of farmers had completed their secondary education, indicating that farmers are capable of decision-making and have managerial skills. Most cultivators in the Kalutara district use their lands to cultivate rubber, and it is nearly 93.3% of the total cultivation land. Involvement of family labourers for rubber cultivation is significantly less because most people are engaged in other jobs, leading to the increased usage of hired labour by 86.7%. Most cultivators in the Kalutara district are eligible for credit facilities.

Table 1: Result of Cobb-Douglas production function

Variable	**Coefficient**	**Standard-error**	**t-value**	**p-value**
Constant	1.731	1.680	1.030	0.0000
Lnland	0.114	0.256	0.444	0.0000
Lnfertilizer	0.387	0.257	1.508	0.0000
Lnacid	-0.27	0.098	-0.278	0.0000
Lnlabour	0.391	0.060	6.569	0.0000

The estimated coefficients indicate that the estimated model is adequate in value of adjusted R^2 −0.854, which offers nearly 85% of the rubber latex production variance explained by the four inputs, mainly land, fertilizer, acid, and labour. F-Test in this model is 87.351, with a *P*-value of 0.000, denoting that the model is adequately significant. The cultivation, land, labour, acid, and fertilizer have a significant effect on rubber latex output. Results indicated that increased land size by 1% would increase the rubber latex output by 0.114%. Also, a 1% increase of fertilizer in the cultivation will increase rubber latex by 0.387%, and a 1% increase of acid in the cultivation will decrease rubber latex by 0.27%. The results show a positive impact of labour usage on the productivity of rubber latex production.

Conclusion and recommendations

The study concludes positive effects of land size, fertilizer, and labour, and adverse effects of acid cost on rubber production. Thus, it is recommended to increase the land size, labour, and fertilizer to increase rubber production. Alternatively, the smallholding rubber producers are recommended to adopt new techniques and skilled labour to increase rubber production.

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Policy Brief 24

Vol. (1) January 2021 **ISNN 2827-7376**

Assessment of factors affecting small-scale coconut production in Sri Lanka: Special reference to Madampe divisional secretariat division in Puttalam district, Sri Lanka

Key Message(s)

[1] The variables, land size and use of hybrid seeds (technology) have a statistically significant effect on coconut production. However, the impact of the use of hybrid seeds on coconut production is negative.

[2] The results further revealed potentiality in scale merits in coconut farming in the area.

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Introduction

Coconut production plays a vital role in Sri Lankan and the world economy. The sector accounts for approximately 10% of the GDP. The national output of coconut has been fluctuating between 2.5 to 3 billion nuts per annum. About 60-65% of production is consumed locally as a staple food. The balance quantity is utilised by the kernel manufacturing industry, mainly for export, and a limited amount for local consumption (The coconut growers association of Sri Lanka, 2020). According to the Department of Census and Statistics and Central Bank of Sri Lanka (2017), coconut production was 2,450 million nuts, and in 2019, coconut production was 3,086 million nuts. Thus, this study assessed factors affecting smallholder coconut production in Sri Lanka. The information will help coconut stakeholders understand the current production and factors affection on small-scale coconut production to plan coconut development properly.

Materials and methods

This study used a descriptive survey research design, which relates to the regression and correlation analysis methods. It mainly considers affecting factors on small-scale coconut production in the Madampe area. Fieldwork for data collection was conducted from October to November 2020 by administering a pre-tested structured questionnaire. Fifty respondents were selected for the survey by employing the convenience sampling technique.

$$Y = \beta_0 + \beta_1 X_1 - \beta_2 X_2 + \beta_3 X_3 - \beta_4 X_4 + ui$$

Where

Y = Coconut production
X_1 = Size of the land
X_2 = Quantity of pest damage
X_3 = Quantity of fertilizer
X_4 = Use of hybrid seeds Ui = Error term

Results

The coefficient of determination (R Square) indicates the selected independent variables' explanatory power on the dependent variable. This means 0.62 of the R square showed that the four variables attributed 62.0% of total variations on coconut production. According to the ANOVA table, the *p*-value is equal to 0.000 and is less than the critical *p*-value (0.05). Therefore, it can be concluded that sufficient evidence is available to prove the model is fit. Thus, the independent variables are suitable to explain the dependent variable.

Table 1: Results of the regression model

Model	**Unstandardised Coefficients**		**Standardised Coefficients**	**T**	**Sig.**
	B	**Std. Error**	**Beta**		
(Constant)	18658.157	6359.734		2.934	.005
Size of the land (X_1)	2411.748	438.995	.683	5.494	.000
Quantity of pests damage(yearly) (X_2)	-16.471	44.388	-.043	-.371	.712
Quantity of fertilizer (X_3)	.454	.368	.126	1.232	.224
Use of hybrid seeds (X_4)	-9307.126	3143.397	-.274	-2.961	.005

a. Dependent Variable: Quantity of yearly coconut production

The regression model results revealed a negative effect of the variables - use of hybrid seeds (Technology) and the Quantity of pest damage - on coconut production in the area. However, the variable quantity of pest damage is statistically significant. Further, the study found a positive and statistically significant effect of the variable, land size (2411.748), on coconut production in the area.

Conclusion and policy recommendations

The study found theoretically contradictory results, which is the negative and statistically significant effects of the use of hybrid seeds on coconut production in the area. Thus, further studies are encouraged to determine the causes behind the negative relationship. The study results further revealed the positive impact of the land size on coconut production, indicating the potentiality in scale merits in coconut farming in the area.

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Vol. (1) January 2021 **ISNN 2827-7376**

The effect of financial literacy of owner-manager and firm performance for small and medium enterprises (SMEs): (With Special reference to Kalutara district)

Key Message(s)

[1] The study results revealed that the variables financial planning and budgeting literacy, debt management literacy, and bookkeeping literacy have a positive impact on SME business performance.

[2] The study recommended organising training sessions for SME owner-managers to improve their financial literacy as it positively affects SMEs' business performance.

WAD Chamika & SWGK Bulankulama

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Introduction

SMEs play a critical role in a country's economy, but they face many challenges. Many aspects of the SME management process involve financial management, such as financing decisions, operational control, performance management, and future planning. These managerial capabilities are referred to as financial literacy (Ripain, Amirual, mail, 2017). Many studies have examined the success and failure factors of small and medium enterprises. To succeed in a business, an entrepreneur needs to have owner-managers with sound financial knowledge. The primary purpose of SMEs is to make a profit, and financial manipulation directly affects business performance. The owner or manager of these SMEs handle the money. Accordingly, their financial literacy should be high, and this will affect their business performance. Lack of financial literacy is a significant problem facing SMEs. This study aimed to examine the effect of the financial literacy level of owner-manager on SMEs' success in the Kaluthara district of Sri Lanka and whether it affects the success or failure of SMEs.

Materials and methods

The researchers used financial planning and budgeting literacy, debit management literacy, bookkeeping literacy, and bank service literacy to measure the business profits growth with the growth of employees. Primary data were collected from a sample of 60 SMEs in 2020 using a standard questionnaire. The researchers formulated four hypotheses to test and achieve the research objectives and used a multiple regression analysis to test the hypotheses. Statistical analysis was performed with the help of SPSS 21 Software.

Results

Multiple regression analysis was used to identify the impact of independent variables and dimensions on the dependent variable of this study.

The model showed the goodness-of-fit as indicated by the coefficient of determination (R2) with a value of 0.866; this implied the independent variables' explanatory power. The independent variables, which include financial planning and budgeting, debt management, bookkeeping, and bank service, explained 86% of the variations of the dependent variable, firm performance.

Table 1: Results of the estimated regression model

Model 2	**Unstandardised Coefficients**		**Standardised Coefficients**		**Sig.**
	B	**Std. Error**	**Beta**	**t**	
(Constant)	.020	.227		0.89	.929
PB	.271	.077	.315	3.499	.001
DM	.245	.084	.247	2.904	.005
BK	.404	.076	.423	5.288	.000
BS	.049	.103	.045	.478	.635

The regression analysis results revealed that the variables financial planning and budgeting, debt management and bookkeeping, positively affect the business performance of the SMEs in the survey area. P values of the variable confirmed that these variables are significant at a 1% significant level. However, the variable bank services do not have a statistically significant effect on SME performance.

Conclusion and policy recommendations

The study results revealed that the variables, financial planning and budgeting literacy, debt management literacy, and bookkeeping literacy, have a positive impact on SME business performance. Thus, the study recommended organising training sessions for SME owner-manager to improve their financial literacy as it positively affects SMEs' business performance.

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Policy Brief 26

Vol. (1) January 2021 **ISNN 2827-7376**

Assessment of factors affecting informal financial transactions of the rural community: with special reference to Nochchiyagama Divisional Secretariat Division, Anuradhapura District, Sri Lanka

Key Message(s)

[1] The majority of people use formal financial transactions because the informal sector's transaction cost is higher than the formal sector, specifically the interest rate.

[2] The study identified positive effects of monthly household income and distance to formal financial institutions on the informal financial transaction while the negative impact of monthly household expenditure on the informal financial transaction in the rural community.

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Introduction

The financial sector of Sri Lanka is comprised of both formal and informal sectors as in other countries. Banking institutions dominate the formal financial sector while other markets such as the capital market and money market play a limited role in facilitating the efficient and effective allocation and deployment of resources in the economy. The informal financial sector does not have an organised setup, and it mainly provides short-term lending facilities based on personal contacts. Studies in the field are with different views on the role of the informal sector as a source of credit for consumption loans to poor households.

The economic reforms introduced after independence brought a structural change in the financial sector with government banks' establishment to provide banking services to all segments of Sri Lankan society. The core objectives of the CBSL are specified as being the maintenance of price stability and financial system stability for the country's economic prosperity. Literature works in the financial sector revealed a series of informal sector financial activity issues in the rural economy of Sri Lanka. Thus, this study's main attempt is to assess the factors affecting informal financial transactions of the rural community of Sri Lanka.

Materials and methods

This study uses a descriptive survey research design that relates to regression and correlation analysis methods. It mainly considered the affecting factors for Informal financial transactions of the Rural Community in the Nochchiyagama Divisional Secretariat Division. Primary data for the analysis were drawn from a field survey conducted from October to November 2021, administering pre-tested a structured questionnaire. The snowballing sampling technique was used to suit the

nature of the problem in the study. The sample size of this study is 60 householders in four Grama Niladhari Divisions. Both primary and secondary data were used during the study.

Results

Table 1 presents the results of the regression model estimated. A 0.46% of R square value indicated that 46% of the variability of the dependent variable is explained by the explanatory variables (average monthly income, average monthly expenditure, distance to formal financial institution, and the number of family members) employed in the model. Value of significance, F value (0.009), confirmed that the model is overall fit. The regression coefficient results revealed that except for the variable, i.e., the number of family members, the rest of the variables are significant at 1% and 5% significant levels. The variables' average monthly income and distance to the formal financial institution have a positive sign of coefficient implying positive impacts of those variables on informal financial transactions. The variable household monthly expenditure negatively affects informal financial transactions in the study area.

Table 1: Results of estimated regression model

Model	Unstandardized coefficients		Standardized coefficients	t	Sig.
	B	Std. Error			
Constant	.527	.200		2.635	.011
Average monthly income	.170	.049	.501	3.494	.001
Average monthly expenditure	-.088	.050	-.282	-1.744	.087
Distance to financial institution	.103	.045	.289	2.308	.025
No. of family members	.035	.034	.145	1.007	.318

a. Dependent variable: Informal financial transaction

Conclusions and policy recommendations

Descriptive analysis of survey results revealed that most people use formal financial transactions because the transaction cost in the informal sector is higher than the formal sector, specifically the interest rate. The study identified positive effects of monthly household income and distance to formal financial institutions on an informal financial transaction and negative impact of monthly household expenditure on an informal financial transaction in the rural community.