

**DRAFT FOR COMMENTS  
(NOT TO BE CITED)**

**Regulatory Impact Assessment: A Tool for Better Regulatory Policy in  
Sri Lanka's Telecommunications Sector? <sup>1</sup>**

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<sup>1</sup> The views expressed in this paper are those of the author and do not necessarily represent those of the Institute of Policy Studies.

## **Abstract**

Regulatory impact assessment (RIA) is defined in the literature as a systematic appraisal of the costs and benefits associated with a proposed new regulation and evaluation of the performance of existing regulations. The case for RIA, at least at the conceptual level, is that it contributes to better regulatory governance by focusing on process issues such as legitimacy, transparency, consistency and accountability and outcome issues such as efficiency and effectiveness. As of now however, the success stories of RIA come from OECD countries where these principles of regulatory governance are often deeply rooted in socio-political structures.

The objective of this paper is to evaluate the usefulness of RIA as a tool for better regulatory policy in a developing country such as Sri Lanka where principles of good governance are an exception to the norm. The paper will focus on Sri Lanka's telecommunications industry for the purpose of this analysis, given that this industry has had an "independent" regulator since 1998 and has experienced waves of liberalisation and privatisation since the late 1980s; and the fact that performance in this key communications sector has a considerable knock-on effect on other segments of the economy. Whilst analysing the scope for RIA in the telecommunications industry the paper also develops a RIA template/"model" for this sector, taking into consideration the socio-political and cultural context of Sri Lanka.

## 1. Introduction

Sri Lanka's telecommunications industry has been profoundly transformed since the late 1980s with the introduction of competition-oriented reforms, making it one of the most liberalised among developing countries in the Asia-Pacific region. Common to other developing countries, liberalisation of the domestic segment of Sri Lanka's telecommunications market preceded the introduction of competition in international telephony. Moreover, the partial privatisation of the incumbent operator came after the liberalisation of the domestic market and the setting up of an "independent" telecommunications regulator.<sup>2</sup> The impact of these reforms<sup>3</sup> on the industry and on the economy in general have been considerable: tele-density in the fixed market for instance, rose from 0.73 in 1991 to 4.9 in 2003 while mobile penetration increased from 0.01 to 7.3 over the same period; and, the telecommunications industry has been one of the main drivers of growth in the economy in recent years, recording annual growth rates of 23.1 per cent, 19.3 per cent and 24.5 per cent in the years 2001, 2002 and 2003, respectively.<sup>4</sup>

In spite of these impressive trends however, Sri Lanka's telecommunications industry is yet to reach its full potential. Whilst over US\$ 1.3 billion has been invested in this industry since 1991, there has been a decline in investment in the last few years from US\$ 303 million in 1999 to US\$ 103 million in 2001 and US\$ 87 million in 2002 (*Samarajiva & Dokeniya, 2004*). Admittedly, the global telecommunications bust does explain at least a part of this decline; however, perceptions of the local industry – as reflected in the opinions of operators and other key stakeholders<sup>5</sup> - suggest that uncertainty stemming from weak regulatory governance has significantly influenced this outcome. The industry's impact on the economy is also undermined by the huge regional

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<sup>2</sup> The independence of this institution, in practice, is subject to much debate as will be discussed in this paper.

<sup>3</sup> See Jayasuriya and Knight-John (2002) and Samarajiva and Dokeniya (2004) for detailed accounts of reforms in the telecommunications industry.

<sup>4</sup> Central Bank of Sri Lanka (various years) and Telecommunications Regulatory Commission of Sri Lanka at <http://www.trc.gov.lk>

<sup>5</sup> Interviews with key stakeholders in the telecommunications regulatory space were conducted for a paper on "WTO Principles on Telecommunication Services Liberalisation: A Case Study on Telecommunication Interconnection in Sri Lanka" currently being written by the author.

imbalance in network development, with the majority of fixed access subscribers concentrated in the urban Western Province, only 11 per cent of rural villages having access to telecommunications services, as at 2001, and 80 per cent of the customers on waiting lists located in rural areas (*Zita & Kapur, 2004*).

These gaps in telecommunications sector performance arise from multiple factors ranging from the destabilising oscillations in policy that have accompanied the rather too frequent changes in government, at the broader political level,<sup>6</sup> to implementation failures relating to issues of legitimacy, credibility, and capacity that plague the telecommunications regulatory authority. As such, the problem is largely one of weak regulatory governance and the challenge that policy makers face is rather daunting given that Sri Lanka has a long way to go in terms of good governance practices, whether this be in the wider political realm, in state institutions, in private entities, or in society in general.

The research question addressed in this paper deals with the extent to which regulatory impact assessment (RIA) – given its reputation at least amongst developed countries as contributing to process elements such as improved legitimacy, transparency, consistency and accountability and outcome elements such as efficiency and effectiveness – can be used as a tool for better regulatory governance in Sri Lanka’s telecommunications sector. The next section of this paper briefly describes the evolution and status of telecommunications regulation in Sri Lanka so as to set out the context within which a RIA exercise would need to be conceptualised and embedded. This section also looks at the current status of RIA implementation in Sri Lanka in relation to the telecommunications sector, based on a study conducted by the Institute of Policy Studies (IPS) for the Centre on Regulation and Competition (CRC) at the University of Manchester in 2003.<sup>7</sup> Section 3 develops a draft “template” for using RIA in the telecommunications regulatory authority while the concluding section raises some crucial policy questions regarding the adoption of impact assessment mechanisms in Sri Lanka.

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<sup>6</sup> Sri Lanka has had three parliamentary elections over the last four years.

<sup>7</sup> Knight-John *et al* (2003).

## **2. A brief overview of telecommunications regulation in Sri Lanka**

Rules-based regulatory systems in Sri Lanka are linked to the liberalisation of the economy in 1977 and to the privatisation of state-owned enterprises in the ensuing years. The general objective of regulation, as expressed in various policy documents, is purportedly, to address distributional concerns whilst creating an environment conducive to private investment flows. Claims to good regulatory governance have been based on the setting up of “independent” regulators, such as for instance the Telecommunications Regulatory Commission (TRC), the National Transport Commission (NTC), the Public Utilities Commission (PUC), the Securities and Exchange Commission (SEC), and the Consumer Affairs Authority (CAA).<sup>8</sup> In practice however, the policies governing regulation have been arbitrary with regulatory priorities hinging for the most part on short-term political interests. Impact assessment, in the few instances it has been carried out, has tended towards rhetoric, resulting in sub-optimal regulatory practices. Curiously—considering the current interest shown by donors in RIA – the need to carry out fast-paced competition and regulatory reforms to satisfy donor “conditionality” is often cited by policy makers as a reason for not being able to institute impact assessment mechanisms.

The basis for telecommunications regulation in Sri Lanka was established with the passing of the Sri Lanka Telecommunications Act No.25 of 1991. This legislation resulted in the trifurcation of the industry with policy functions being the responsibility of the Ministry in charge of the subject, operational functions being assigned to the then incumbent operator, Sri Lanka Telecom (SLT), and regulation being the charge of a single-person authority. The separation of regulatory and operational functions however, did not materialise in practice, with both SLT and the regulator reporting to the Ministry. In 1996, legislation was passed in the form of an Amendment to the 1991 Act to facilitate the creation of a more independent regulatory authority. Accordingly, the single-person authority was replaced by a five-member commission – the TRC- with two *ex-officio* members, namely, the Secretary to the Ministry serving as Chairman and the Director

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<sup>8</sup> See Knight-John (2004) for a detailed account of these institutions.

General of Telecommunications (DGT) serving as the Chief Executive Officer (CEO) of the Commission, and three part-time members from the fields of law, finance and management. The appointment of the Secretary to the Ministry as Chairman to the Commission compromised the independence of the regulatory body as did the absorption of several former employees of the incumbent into the TRC.

The image of the TRC, at least on paper, is to a large extent consistent with good governance practices. The 1996 Act is in line with the WTO principles on telecommunications services liberalisation and with Sri Lanka's commitments under the GATS Telecommunications Reference Paper. The TRC website <sup>9</sup> details the objectives and responsibilities of the institution, telecommunications legislation, policy issues on telecommunications, telecommunication statistics, licence procedures, quality of standard rules, interconnection rules, consumer protection issues, etc. In practice however, the Commission has tended to under-perform for the most part, due to both internal structural and capacity issues and to larger political economy problems such as political and regulatory capture.

One of the most pressing problems confronting the TRC is its current staff and skills structure, which is characterised by an over-supply of engineers and a shortage of other technical expertise and a high turn-over at the decision-making level – the level of the Commission – reflecting the intervention of party politics into a supposedly “independent” regulatory entity. The influence of larger political factors also saw the National Communications Policy that included several pro-competitive and progressive measures being placed on the back-burner despite having been approved in principle by the previous government, reducing telecommunications policy to piecemeal measures more often than not influenced by political priorities. Given this setting it is hardly surprising that the Commission is viewed by stakeholders in the telecommunications regulatory space as an entity lacking legitimacy and credibility and easily outstripped in expertise.

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<sup>9</sup> See <http://www.trc.gov.lk>

A reflection of this perception is illustrated in the interconnection imbroglio that currently confronts the telecommunications industry. Given that Sri Lanka has fully adopted the GATS Telecommunications Reference Paper, practices in the telecommunications industry need to be in line with the following language, as set out in this document<sup>10</sup>:

- **“Interconnection with a major supplier<sup>11</sup> will be ensured at any technically feasible point in the network. Such interconnection is provided.**
  - (a) **under non-discriminatory terms, conditions (including technical standards and specifications) and rates and of a quality no less favourable than that provided for its own like services or for like services of non-affiliated service suppliers or for its subsidiaries or other affiliates;**
  - (b) **in a timely fashion, on terms, conditions (including technical standards and specifications) and cost-oriented rates that are transparent, reasonable, having regard to economic feasibility, and sufficiently unbundled so that the supplier need not pay for network components or facilities that it does not require for the service to be provided; and**
  - (c) **upon request, at points in addition to the network termination points offered to the majority of users, subject to charges that reflect the cost of construction of necessary additional facilities.**
- **The procedures applicable for interconnection to a major supplier will be made publicly available.**
- **It is ensured that a major supplier will make publicly available either its interconnection agreements or a reference interconnection offer.**
- **A service supplier requesting interconnection with a major supplier will have recourse, either:**
  - (a) **at any time or**
  - (b) **after a reasonable period of time which has been made publicly known**

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<sup>10</sup> Reference Paper, GATS/SC/79/Suppl.1, p.6.

<sup>11</sup> A major supplier is defined in the Reference Paper as one that “has the ability to materially affect the terms of participation (having regard to price and supply) in the relevant market for basic telecommunications services as a result of: a) control over essential facilities; or, b) use of its position in the market.” (GATS/SC/79/Suppl.1, p.5.)

**to an independent domestic body, which may be a regulatory body.....to resolve disputes regarding appropriate terms, conditions and rates for interconnection within a reasonable period of time, to the extent that these have not been established previously.”**

Sri Lanka’s interconnection commitments have been addressed in the 1996 Act, operator licences, and the newly promulgated interconnection rules. For instance, the Act of 1996 authorised the TRC to determine interconnection charges in situations where service providers failed to reach an agreement by themselves and to resolve disputes concerning interconnection; and, the incumbent operator was obliged, under its licence, to provide interconnection to other operators. Moreover, gaps in the 1996 legislation, such as the fact that interconnection was not mandatory, that there was no provision for the regulator to determine charges on a cost-oriented basis, that there was no formal mechanism for dispute resolution; and, that it was not mandatory for operators to disclose the contents of an interconnection agreement to the TRC were addressed by the Interconnection Rules of 2003.<sup>12</sup> (See *Venugopal, 2003 and Dharmawardena, 2004* for detailed accounts of Sri Lanka’s interconnection regime.)

Despite the institution of these formal arrangements however, interconnection remains a major concern in Sri Lanka’s telecommunications sector. Although the seven Public Switched Telecommunications Network (PSTN) operators signed an agreement with the TRC in March 2003 to implement the interconnection rules, these operators appear to have formed a memorandum of understanding (MOU) that is not in line with the principles and call charges set out in these rules. Significantly, this MOU is not transparent, directly contravening Sri Lanka’s WTO commitments. Efforts on the part of the regulator to secure information on this “cartel-like” agreement has not been successful pointing to the TRC’s lack of legitimacy in the eyes of these other actors in the regulatory space.

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<sup>12</sup> At <http://www/trc.gov.lk>

The first-mover advantage that the incumbent operator, Sri Lanka Telecom Ltd. (SLTL) gained with the *de facto* monopoly in international telephony that it was granted until 2002<sup>13</sup> at the time of privatisation and with its control over critical bottleneck facilities has also given it considerable sway over the manner in which activities are actually carried out in the industry. Currently, the incumbent – or “major supplier” in WTO terminology – has a market share of approximately 85 per cent in fixed telephony and 66 per cent of total phone market revenues; moreover, its fully owned cellular subsidiary, Mobitel, controls about 11 per cent of the mobile market (*Zita & Kapur, 2004*). The unfair edge the incumbent has in the telecommunications market is reflected in its ownership of this mobile subsidiary, whilst cross-ownership is denied to its competitors. The anti-competitive nature of this issue is compounded by the fact that TRC has no formal mechanisms in place to check any possible cross-subsidising activities between these two entities. Moreover, the fact that the state owns 49.5% of SLTL makes it more vulnerable to political capture – and a target of political favouritism.

The various anti-competitive practices engaged in by the incumbent over the years, exploiting its technical and “political” advantages, are detailed in *Jayasuriya & Knight-John (2002)*. More recently, however, the undue influence that this operator has over the telecommunications market has stood in the way of any real progress in the liberalisation of the international gateway. As at the time of writing, only the seven PSTN operators and three non-PSTN operators of 32 External Gateway Operator (EGO) that were granted licenses over a year ago have been given interconnection. Apparently, the regulator appears to have little control over the manner in which this interconnection problem is being played out in the market.

Related to the interconnection problem and with direct impacts on mobile subscribers is the unresolved issue of Calling Party Pays (CPP) versus Mobile Party Pays (MPP). At present, Sri Lanka has an MPP system in place with mobile operators paying the incumbent for calls terminated on its network, while the incumbent does not pay mobile

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<sup>13</sup> The international market was finally liberalised only in March 2003, due to various implementation problems at the policy level.

operators for calls terminated on mobile networks; mobile users therefore, have to bear the cost of this termination charge in the form of incoming call charges. Mobile operators have called for the implementation of the CPP system on the basis that these schemes are the emerging international standard and that MPP schemes result in low call completion rates due to users keeping their phones switched off to avoid incoming call charges. Fixed telephony operators on the other hand, oppose implementation, arguing that a CPP system will pose a greater burden to fixed-access users (*Jayasuriya & Knight-John, 2002*). Although the TRC announced that a CPP regime would be implemented by March 2004, the combined intransigence of the incumbent and the other fixed-access operators has prevented the implementation of this system. Again, the regulator emerges in the public eye as an entity lacking the independence and strength to institute its stated regulatory policy targets.

What emerges from this overview of telecommunications regulation in Sri Lanka is that whilst far-reaching reforms have been introduced in the market, the TRC has, for the most part, been unable to keep abreast of these changes and act as a facilitator of competition in the industry. As such, the impacts of progressive and pro-competitive reforms in the sector have not been sustained. This leads us back to the main research question addressed in this paper: can RIA facilitate better regulatory policy and regulatory governance in Sri Lanka's telecommunications sector. The rest of this section briefly considers the extent to which RIA has been used in the telecommunications industry up to now.

The definition of RIA used in this paper varies from the traditional conceptualisation of RIA as a "systematic" procedure, in view of the fact that impact assessment in most developing countries is for the most part partial and not methodical in practice. The broader definition borrowed from *Lee (2002)* sets out RIA as a process,

**“used to assess the likely consequences of proposed regulation, and the actual consequences of existing regulations, to assist those engaged in planning, approving and implementing improvements to regulatory systems.”**

An analysis of questionnaires on RIA sent out to actors in the regulatory space in 2003 for a paper written by the IPS for the CRC research programme<sup>14</sup>, suggested that a partial and very patchy form of impact assessment does exist in Sri Lanka – although policy makers and regulators appear to have little or no knowledge of the formal RIA process, as defined for instance in the 1997 OECD Guidelines (*OECD, 1997*). As regards the telecommunications sector, the questionnaires revealed that there were no RIA guidelines; that impact assessment was undertaken *ex-ante* in some cases, but not *ex-post*; that consultation was not required by law and often undertaken only after detailed proposals were already in place; and, that benchmarking was used extensively for tariff and quality decisions.

What was apparent in the course of this research exercise was that there were no systematic procedures in place to evaluate the institutional or functional dimensions of the TRC, with regulation being carried out for the most part in a knee-jerk fashion. Whilst responsive regulation is vital, particularly in a dynamic industry like telecommunications, Sri Lanka's experience with telecommunications regulation – a snapshot of which was set out earlier on in this section – points to the fact that a more holistic approach to the regulatory process may produce better results. Conceptually at least, RIA, with its focus on process and outcome elements of regulation, has the potential to bring about better regulatory policy. The challenge lies however, in designing an impact assessment mechanism to suit the political economy context of a particular country or sector. The next section of this paper sets out a draft RIA template for Sri Lanka's telecommunications regulatory authority.

### **Towards developing RIA in Sri Lanka's telecommunications regulatory authority**

The draft template developed in this section, is work-in-progress, and based on preliminary interactions that the author has had with the TRC. The firming up of this

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<sup>14</sup> Knight-John *et al* (2003).

template will be subject to further discussions with the regulator and to joint review by an informal Working Group on RIA being set up by the IPS to function as a think-tank on impact assessment and to carry the process forward.

The selection of the telecommunications sector and of the TRC as the target of an RIA pilot project is based on the fact that the telecommunications regulator has been a player in the regulatory space since 1998 and that several members of this regulatory entity have expressed interest in instituting an RIA mechanism. Given that information gaps are often the obstacle to the development of a useful template, the willingness of the regulator to participate in this exercise was inducement to focus on this sector.

At another level, the attempt to institute RIA in a particular “independent” regulator as opposed to embedding the process in the wider policy process – for instance creating a RIA unit in the office of the Executive – might be subject to question. At this juncture however, this exercise is at a “testing stage” using TRC as the target of a pilot project. Whilst developing an impact assessment process in the broader context is a worthy task, the challenges of governance in Sri Lanka suggest that the demonstration effects of successful incremental and focused change – creating an “island of good governance” as it were – might be more beneficial over the longer term.

Developing a template for the implementation of RIA in the TRC raises the following questions: what is the objective of the RIA exercise; what is its scope; and, which indicators should be used to measure the process and outcome elements of regulation. Whilst this paper attempts to prompt thinking on these issues, it is important to emphasise that the answers to these questions must, in the final instance, come from the TRC, as it is only then that the core of RIA – attitudinal change- can be realised.

The “standard” RIA methodology adopted in OECD countries emphasises market efficiency as the main objective of impact assessment. However, given the development priorities of the Sri Lankan economy in general and of the telecommunications market in particular – where there is a wide gap in universal service obligations (USOs) – an RIA

that gives more weight to pro-poor regulation would be a better option. An impact assessment mechanism that focuses on poverty reduction is also more likely to be favoured by politicians, given the pro-poor “language” adopted by successive regimes. Giving priority to poverty reduction in the RIA exercise however, does not mean that the efficiency impact of regulations should be neglected; clearly, market efficiency is an important objective, particularly in light of the fact that investment flows are vital for the expansion of telecommunications services. What is required therefore is for the regulator to adopt a flexible approach, balancing these two objectives in line with the particular rule or regulation under scrutiny. As such, an RIA developed along these lines might include the following question:

- What is the main purpose of the regulation/rule/intervention (give weighting in percentage)?
  - a) To facilitate efficiency (for instance, greater competition, increased investment flows, etc.) in the telecommunications industry
  - b) To assist the poor/disadvantaged groups of the population (for instance, rural access, special tariff schemes, etc.)

Addressing the second question concerning the scope of the RIA exercise requires a few definitions with regard to the inputs and outputs of the regulatory process. As defined here, the inputs of the regulatory process relate to the organisational and functional structure of the regulatory authority – this includes for example, staff strength, working environment, job satisfaction, technical expertise, etc. The outputs of regulatory practice include outcome elements such as the effectiveness and efficiency of an intervention and process elements such as legitimacy, transparency, and accountability. The following sub-set of questions deal with the inputs side of the regulatory equation.

- What is the current staff strength of the TRC?
- What percentage of the current staff strength is technical; what percentage is administrative?
- How many of the top-level positions at the TRC remain unfilled?
- How does the salary structure of the TRC compare with similar public-sector entities?
  - (a) Higher (b) Similar (c) Lower
- How do promotions and other benefits/incentives schemes compare with similar public-sector entities?
  - (a) Better (b) Similar (c) Worse

- How do the opportunities for skills enhancement at the TRC compare with similar public-sector entities?  
(a) Better (b) Similar (c) Worse
- How does the overall working environment compare with similar public-sector entities?  
(a) Better (b) Similar (c) Worse
- Detail the strengths, weaknesses, opportunities and threats of the TRC (SWOT analysis).

On the outputs side of telecommunications regulation, a quantitative measurement of outcome elements – effectiveness and efficiency – presents significant challenges in the Sri Lankan context, given the difficulties in obtaining reliable data. The problem is compounded by the fact that a comprehensive RIA exercise ought to cover both the *ex-ante* and the *ex-post* stages of a regulatory intervention. As such, at this stage at least, it may be more practicable to institute a qualitative approach to this part of the RIA exercise, based on the following set of questions.

- What was (is) the main objective of this regulatory intervention?
- What was (will) the impact of this intervention (be) on (provide numbers where available):
  - (a) Competition
  - (b) Investment
  - (c) Rural access
  - (d) Prices
  - (e) Quality of service
  - (f) Growth of the industry
- Have (can) the penalties and enforcement systems relating to the intervention helped (help) to achieve the objective of regulation?
- Were (have) other regulatory options (been) given sufficient consideration (for instance, the “do nothing” option).

The reliability of the answers to these questions can be buttressed by complementing the regulator’s responses with an “external” analysis – where key players in the regulator space such as operators, consumers, and policy makers are also given the opportunity to respond to these questions.

The process elements selected for this RIA template are transparency, accountability, and legitimacy. The most effective means of ensuring transparency in regulatory practice is by way public consultation. It may be useful perhaps to make consultation a legal

requirement for the TRC, whilst spelling out criteria such as the phases (for instance, the conceptualisation of the intervention, the drafting of the regulation, and the detailed proposal) when consultation is mandatory, the time frame within which interested parties need to respond; and the medium of communication (such as print media in all national languages, electronic media, etc.). Accountability is enhanced when a regulator is able to publicly justify its actions and decisions. As such, the TRC should be required, either by law or by way of policy, to communicate its regulatory decisions and the rationale behind these decisions, to the general public.

The final process element, legitimacy, is a function of the perceptions that stakeholders in the regulatory space have of the regulator. Accordingly this element can be linked to a “composite index” (qualitative or quantitative depending on the nature of available information) comprising of the effectiveness and efficiency of regulation and of independence. Given the broader political economy context within which TRC must function, and given its formal links with government as described earlier on in this paper, “independence” conceptualised as immune to political influence is not a viable state. Instead, the target ought to be the facilitation of conditions of “workable independence” – independence in the “imperfect” context of bad governance in the wider political setting. The following indicators for the measurement of regulatory independence draw heavily from *Wu (2004)*.

- Is the leadership of the TRC easily removed for policy reasons (X=yes; O=no)
- Does the leadership have a fixed term of office (X=yes; O=no)
- Does the leadership have a possibility of a second term (X=yes; O=no)
- Can regulatory decisions be overturned by the government (X=yes; O=no)
- Does the TRC have collective decision-making by several Commissioners (X=yes; O=no)
- Are telecommunications licenses issued by the TRC only (X=yes; O=no)
- Does the TRC have an independent leader (X=yes; O=no)
- Does the TRC have independent sources of funding (X=yes; O=no)
- Are there revolving door provisions in place (X=yes; O=no)
- Does the TRC have a separate division to handle consumer affairs and universal service functions (X=yes; O=no)

#### **4. Conclusion**

In recent years, regulatory governance has become a central part of development thinking following the donor community's "slogan" that institutions matter. Whilst Sri Lanka, like several other developing countries joined the regulatory reform bandwagon, the achievement of good regulatory governance has been to a large extent an elusive goal. Although RIA techniques, conceptualised as an evaluation of the outcome and process elements of regulatory practice, present an opportunity to get to better regulatory governance the question still remains: can this "model" facilitate good regulatory governance in a milieu where bad governance practices are rampant. Assuming the optimistic stance that creating an "island of good governance" may bring about positive knock-on effects in a "sea of bad governance", the preceding section set out a draft RIA template for telecommunications regulation. Adopting RIA in Sri Lanka however, comes with significant challenges as suggested by the following policy questions.

- The sustainability of RIA over the long term rests on its acceptance and endorsement by political entities that matter. Ideally, building the profile of RIA ought to be targeted at the highest levels of government – that is, the office of the President or of the Prime Minister. However, how realistic is the expectation of sustained political buy-in, particularly in view of the frequent changes in government over the last four years? To what extent would the enactment of legislation to make RIA a mandatory exercise address this problem?
- Although the RIA template developed in this paper focuses on a pilot exercise, the expectations, if the results of this initial project are positive, is that impact assessment measures will be instituted in other areas of the economy. Would this necessitate a central coordination unit, located perhaps in the office of the Executive liaising with peripheral RIA units in other entities? What alternative coordination arrangements can be put in place, given that the creation of yet another institutional layer could well lead to more bureaucratisation in a political economy setting that tends towards administrative inefficiency?

- The success of impact assessment over the long term is intrinsically linked to its integration with the overall policy setting. A key issue in this regard is where would RIA fit in the context of the ongoing Constitutional and Public Sector reforms process?
- Given the scarcity of regulatory skills in Sri Lanka, and the fact that RIA is inherently a dynamic and not a static exercise, how can we build RIA capacity? Do we outsource these skills from other countries?
- RIA, by definition, requires attitudinal change if it is to show positive results. A prominent feature of Sri Lanka's socio-political milieu is the antipathy to change – stemming from the fear of losing sources of rents – demonstrated by incumbent planners or “insiders” in the regulatory game. What sort of creative “carrot and stick” approach would help resolve this deep-rooted problem?

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