

A review of application of economic instruments in industrial pollution control in Sri Lanka

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Industrial pollution is a negative externality that arises since the impacts of pollution control are not part of the industry's decision making process. Negative externalities include health impacts, direct and indirect impacts on productivity, effects on ecosystems and aesthetic effects. Economic instruments are often preferred over the conventional command and control approaches in controlling pollution. However, application of economic instruments in Sri Lanka is minimal leading to increasing levels of pollution in air water and land resources. The objective of this study was to review the application of economic instruments in Sri Lanka and to review the use and availability of economic values in guiding the design of economic instruments.

The review was based on two surveys. The first survey was on the available applications of economic instruments for different types of pollutants in Sri Lanka with a view to recognising the potential application in other areas, potential advantages over the conventional approaches and economic efficiency issues. A second survey was carried out on economic damage cost estimations of pollution in Sri Lanka and their usefulness in guiding economically efficient economic instruments for the industrial sector.

Survey of existing instruments of pollution control revealed that financial assistance for cleaner production technologies (Rs 3 to 5 million per industry), common waste water treatment plant (with a cost of Rs 8.5 billion) and relocation of industries in industrial estates (22 estates in 13 districts) are the prominent interventions from the government and there has been no market based instruments in operation. Damage cost estimations have been very scarce thus limiting their application in optimal instrument levels. The applicability and feasibility of load based charge system (with a tariff based on Chemical Oxygen Demand of the industry) has been tested for industries that are to be connected to the common treatment plant for Moratuwa-Rathmalana and Jaela-Ekala industrial areas. The potential for further application of economic instruments was also evident from the literature.

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