



Laying the Foundation for the Future

The Government's Economic Record

1994-1995

**Presidential Secretariat
Colombo, Sri Lanka
November, 1995**

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PART I

CHAPTER I

INTRODUCTION

THE principal thrust of the Government's economic policies was contained in the opening paragraphs of its first Policy Statement issued by President Chandrika Bandaranaike Kumaratunga while Prime Minister, on 13th September, 1994 :

"The Government stands committed to building a strong national economy within a market framework. The principal engine of growth is expected to be the private sector, both domestic and foreign. The role of the State is to provide an institutional framework that is wholly supportive of rapid private sector development. In order to do this effectively, the Government will pursue 'market-friendly' policies which support rather than supplant markets. Accordingly, government intervention will be limited to areas where markets fail to function effectively, and therefore need to be strengthened or supplemented, so that they serve the welfare of the people."

"A necessary condition for the success of these policies is the maintenance of a stable macro-economic and financial framework which is conducive to the reduction of inflation, the pursuit of rapid economic growth, the creation of productive employment opportunities, and the equitable distribution of the fruits of development."¹

While the private sector was expected to be the principal engine of growth, the role of the State was by no means considered a passive one. While the Policy Statement asserted that "Public intervention would be limited to the areas where markets fail to function effectively", it identified both generally and more specifically, the areas of market failure.

"These lie principally in the general area of human development expenditures. For instance, in education, there is the need to improve the quality of education and technological skills, in order to re-orient our youth to the needs of a modern economy, which would be firmly situated on the foundations of the Sri Lankan identity, built out of its social and cultural heritage. Similarly, there is a need for intervention in health, in protecting the environment, and in creating a viable social safety net to protect the poor, by means such as the Prosperity (Samurdhi) Movement for the eradication of poverty, as pledged in our Manifesto. The pursuit of sustainable human development, to which we are committed, will not become possible, without adequate public intervention and investment in these areas."

The state was also to be entrusted with the task of "building the infrastructure that is required as a necessary complement to private sector growth", with substantial reinforcement from private investment in infrastructure.

¹ Hon. Chandrika Bandaranaike Kumaratunga, *Economic Policy Statement of the Government of Sri Lanka*, Colombo, 13, September, 1994.

“ As the resource requirements for the provision of adequate infrastructure are so overwhelmingly large, a significant portion of the infrastructure investment effort will have to be undertaken by the private sector. This would be expected to complement public sector infrastructure expenditure in areas such as roads and highways, power, telecommunications, and ports. Private sector infrastructure investment would occur under arrangements such as BOT (Build, Operate and Transfer) and BOO (Build, Operate and Own), which would be implemented within an evaluation and regulatory framework that would guarantee transparency and accountability. The present Secretariat for Infrastructure Development and Investment (SIDI) will be strengthened and will work in close cooperation with the Board of Investment (BOI).”

This document will assess the manner in which the Government's principal policy thrust has been pursued during its first year of office. It will explore the ways in which the private sector has been encouraged to be the principal engine of growth. It will also examine progress in the complementary areas of State action, directly in the areas of human development expenditure, and both directly and indirectly in promoting necessary public and private infrastructure. For rapid private sector growth is necessarily predicated on the adequate availability of both skills and infrastructure. It will proceed in two parts.

Chapter (2) of part I entitled *Overall Macro Economic Developments* will deal with the “Stable macro economic and financial framework” that the Government's first Budget sought to establish in February this year, with a view to reducing inflation and increasing economic growth and employment.

Chapter (3) entitled *“Production Sectors”* deals with the achievements in the productive sectors of the economy where the private sector plays the lead role.

In each such sector namely agriculture, industrial development, and trade and tourism, a brief outline of the salient policy thrusts will preface the account of achievements in production, and in exports. This will be followed, where appropriate, by a focus on supportive state action i.e. the activities undertaken by the State in support of private sector efforts. In the industrial sector, for example, this would include infrastructure in the form of industrial estates, and specific forms of training and skill development eg. the Clothing Industry Training institute: and in the agricultural sector, the creation of irrigation facilities and State sponsored institutional innovation eg. Farmers Organisations.

Chapter (4) entitled *Private Investment and Public Enterprise Reform* will deal with the activities of both the Board of Investment (BOI) and the Public Enterprise Reform Commission (PERC). They both have in common the objective of promoting efficient private investment, of upgrading technology and of eliminating infrastructure bottlenecks that stand in the way of rapid private sector growth. The Board of Investment seeks to achieve this objective by promoting the flow of suitable foreign investment into higher value added sectors and by supervising decision making on private investment in infrastructure through the Secretariat for Infrastructure Development and Investment (SIDI) currently a part of the BOI. PERC, on the other hand, has the specific goal of supervising the divesting of public enterprises to the private sector, both foreign and domestic, with a view to relieving the burden on Government.

Part II of this review will deal with the accomplishments in the areas of sustainable human development and economic infrastructure during the past year along with future plans as appropriate for 1996 and comprises Chapter (5) and (6).

Chapter (5) entitled "*Sustainable Human Development: the Social Sectors*" will deal with—

- A Education,
- B Health,
- C Poverty, Labour, Social Services, (including Samurdhi) and
- D Human Settlements (Housing, Water Supply, Environment)

Chapter (6) entitled "*Economic Infrastructure*" will deal with—

- A Power & Energy, Telecommunication, Ports & Shipping and
- B Transport and Highways.

CHAPTER 2

OVERALL MACRO ECONOMIC DEVELOPMENTS

1. A Conservative Fiscal Policy

THE Budget presented by the Government in February 1995 was its principal instrument for establishing "a stable macro economic and financial framework". The slippages of 1994 during an election year had witnessed a sharp rise in the overall budget deficit, — to 10 percent of GDP, and in the current account deficit - to 3 percent of GDP. These contrast with magnitudes of 8.5 percent, and 0.8 percent, respectively, for the previous year 1993, and with the overall deficit of 6.5 percent of GDP originally targeted for 1994, along with a modest current account surplus.

The 1995 Budget launched the economy on a path of correction in both respects, targeting for an overall deficit of 7.5 percent and a current account surplus of 0.5 percent. This would permit domestic non-bank borrowing to fall to 3.4 percent of GDP from the 6.3 percent level of 1994, thereby diverting a larger share of national savings (amounting to the difference of nearly 3 percent of GDP) for investment in the private sector, as part of a strategy which sought to eliminate the Government's claim on national savings altogether by the year 2000. By then, the Budget would be financed solely by a sustainable volume of foreign finance amounting to no more than 3 to 4 Percent of GDP, and a significant current account Budget surplus. GDP growth for 1995 was expected to be 6 percent, and inflation 7 to 8 percent.

This macro economic framework proved vulnerable, in the event, to two kinds of shocks. The first was an escalation of military expenditure by 2 percent of GDP over the amounts built into the Budget, as a result of the resumption by the LTTE of the conflict in the North when they unilaterally abrogated, in April this year, the peace process launched by the Government. The second unexpected shock was the doubling of the world market price of flour, from US \$ 125 to US \$ 205 per ton. This had the effect of increasing the subsidy on bread by 1 percent of GDP.

On these counts, alone, the budgetary position would have worsened by 3 percent of GDP. In other words, the current account deficit would have been 2.5 percent of GDP instead of a surplus of 0.5 percent, and the overall deficit 10.5 percent of GDP instead of 7.5 percent of GDP. Quite obviously, mid course corrections had to be undertaken in order to move towards a more stable macro economic situation. The Government increased the defence levy to 4.5 percent in the middle of the year, followed by a gradual correction in the bread/ flour subsidy towards the latter part of the year. As a result the current account deficit was contained at 1.7 percent of GDP, and the overall deficit at 9.3 percent, while net domestic borrowing rose to 5.4 percent of GDP as compared with the target of 3.4 percent.

2. Reducing Inflation to a Single Digit

The fiscal correction was accompanied by a tight monetary policy aimed at containing monetary expansion in the interests of curbing inflation as reflected in the high yield on Treasury Bills. A major achievement was the reduction in the annual average inflation this year to around 8 percent—a record single digit level achieved for the first time since October 1994 after 11 years of double digit inflation. This counter inflationary stance was reinforced by a determined

adherence to a policy aimed at not printing money which, if successful, would mean zero borrowing from the banking system for the year 1995. Other contributory factors helping to reduce inflation were improvements in the supply situation of domestic food items, the reduction in the import tariffs on major consumer items, and a relatively stable exchange rate.

One unfortunate consequence of the tight monetary policy accompanied by increased non-bank borrowing to finance the Budget, was the upward movement of interest rates to nearly 20 percent. This contrasts with the policy to stabilize interest rates below 15 percent which had been achieved last year, that enhanced the private sector incentives to invest. An important objective of the budgetary strategy for 1996 however is to restore interest rates to these moderate levels.

3. Maintaining the Development Momentum :

Growth and Investment : Achievements & Outlook

The most significant feature of the economic scene in 1995 was the maintenance of last year's growth momentum. GDP growth at 5.5 percent is virtually what we realised last year. Investment has been maintained at a high 26 percent of GDP identical to that of 1993, and only 1 percent below last year's. As asserted in the 1996 Budget these developments can be considered as "eminently satisfactory.....in the context of the resumption of hostilities in April, the resulting escalation of defence expenditures, the negative impact of labour unrest and other adversities".

It is worth examining the potential for future growth in the economy given this momentum. When peace is reestablished there will be an opportunity to absorb, in peace time reconstruction and in the private sector, the resources now diverted to the war which exceed 5 percent of GDP. Even if full demobilization were to take some time after the return to peace conditions, a moderation of hostilities could be expected to release about 1 to 2 percent of GDP for investment. With the implementation progressively of the Government's fiscal strategy of eliminating the Government's claim on national savings altogether by the year 2000, significant resources would be freed gradually from the Government Budget for private investment. The medium term budgetary outturn encompassing the period 1995 to 1998 presented along with the 1996 Budget projects a decline in the domestic financing of the Budget as a percentage of GDP as follows—

1995	—	5.4 percent
1996	—	4.1 percent
1997	—	3.4 percent
1998	—	2.2 percent

On this basis it would follow that between 1995 and 1998 the Government would relinquish its claim on national savings by 3.2 percent of GDP – the difference between 5.4 percent and 2.2 percent. The return to peace and the implementation of the budgetary strategy would then, taken together, add between 4 to 5 percent to the savings available for investment in the private sector. Both these developments are bound to attract enhanced flows of foreign direct private investment running during 1994 to 1995 at around 1 1/2 percent to 2 percent of GDP

Against this background it becomes possible on plausible assumptions to project total investment magnitudes for 1996-98, taking as a bench mark the 1995 investment rate of 26 percent of GDP. If the 1996 Budget has its intended effect on private sector investment incentives, it is reasonable to expect an investment rate for 1996 of at least 27 percent of GDP. With the winding down of hostilities, and the emergence of a modest current account surplus in the Budget for 1997—1998 in the range of 0.6 to 3.0 percent of GDP, investment could rise conservatively by 1998 to 30 percent of GDP (27 plus 3). Additional flows of foreign investment to Sri Lanka of GDP over and above recent levels of 1 1/2 to 2 percent of GDP, would then constitute an investment bonus, bringing the total investment rate above the 30 percent threshold needed for an East Asian style take off. It is this kind of reasoning which underpins the assertion in the 1996 Budget that “the thrust of our economic policy is the gradual escalation of economic growth to 7 to 8 percent over the medium term in order to generate adequate employment opportunities and provide reasonable living conditions to our people”.

4. Employment

The current labour force in Sri Lanka has been estimated at 6.5 million. Of these, about 5.8 million persons are in some form of employment, as a result of sustained economic growth in Sri Lanka averaging 5.6% in 1994 and 5.5% in 1995.

One important consequence of the growth momentum sustained by the economy, this year, is the sharp decline in unemployment from 13.7 percent of the labour force to 11.9 percent.

4.1 New Employment

Between 1994 and 1995, 318,696 persons have been given new jobs by way of—

Normal economic activity	109,100
Board on Investment Enterprises	29,718
Samurdhi Programme	30,678
Foreign Employment	149,170

The figure excludes recruitment to the Armed Forces and Police.

4.2 Structure of Employment

According to Quarterly Labour Force Survey of the Department of Census & Statistics, the structure of overall employment in the country has marginally changed during 1994-1995 as indicated in the following Table.

	(Percent)	
	1994	1995
Agriculture	39.5	35.6
Industry	19.8	21.6
Manufacturing	14.4	14.6
Construction	4.1	5.4
Others	1.3	1.6
Services	40.7	42.8
Trade	12.2	13.2
Transport	4.7	4.8
Community Services	18.0	17.4
Others	5.8	7.4
	100.0	100.0

The share of both industry and services sector has increased by 2 percent and the agriculture share has declined by 4 percent. This trend reflects the rapid industrialization process taking place in the economy.

4.3 Foreign Employment

According to the Bureau of Foreign Employment (BFE), foreign jobs are mainly available for housemaids (73 percent), skilled labourers (15 percent) and unskilled labourers (10 percent). A vast majority of these workers are from poor families. The opportunities for foreign employment will improve their living condition to a great extent. The BFE has initiated an insurance scheme (October 15, 1994) for those who leave the country for foreign employment. The scheme helps to bring back those who got stranded in foreign countries and pay compensation (up to Rs. 125,000) for those who got injured in accidents or die while abroad.

Towards Full Employment by the year 2000

So far as the prospects of employment growth in the future is concerned a great deal depends on the average growth rate that can be attained. Assuming that the rate of GDP growth reaches a range of 7 to 8 percent in line with the outcomes previously discussed in the later years of this decade. The average growth rate for the period 1995 to 2000 cannot fall below 6 percent. If the growth of labour productivity remains in line with the past at 2.15 percent per annum or moderately in excess of it at 2.5 percent per annum, unemployment can be expected to fall to a frictional level of 5 percent of the labour force by the year 2000 if the economy were to maintain grow as an average GDP growth rate of 6 percent per annum between 1995 and 2000.

CHAPTER 3

PRODUCTION SECTORS

A. **Agriculture**—Including Irrigation, Plantations, Fisheries and Livestock

Agricultural Policy

The policy statement of the government of 6th January 1995 states that the new agricultural development strategy of the Government is designed to ensure that the creative energy and independent spirit of our farmers are not stifled by bureaucracy and over regulation so that they can move away from the poverty trap of subsistence farming to commercial farming. The main elements of this strategy, are :

- (a) the removal of the institutional and policy obstacles which have reduced agricultural profitability and reduced investment, and
- (b) the limiting of government interventions in agriculture to improving markets whereby farmers will be assured of stable and remunerative prices for their produce and the supply of inputs and technology.

In the sections which follows, the performance of the major sub-sectors within the general heading of agriculture are reviewed in brief. The performance of each sub-sector first in terms of output and then in terms of exports or reduced imports where relevant is highlighted. Important areas of supportive state action in each sub-sector in institutional reform and other innovations consistent with (a) and (b) above are then presented.

A (i) Domestic Agriculture

1. Production

The favourable weather conditions experienced during the period under review supported by a number of carefully targetted interventions in the supply of key inputs as well as improved markets resulted in increased production of paddy and a number of other important food crops during the period under review. Paddy, dry chillies, red onions, and potatoes are important crops which influence the cost of living to a great extent.

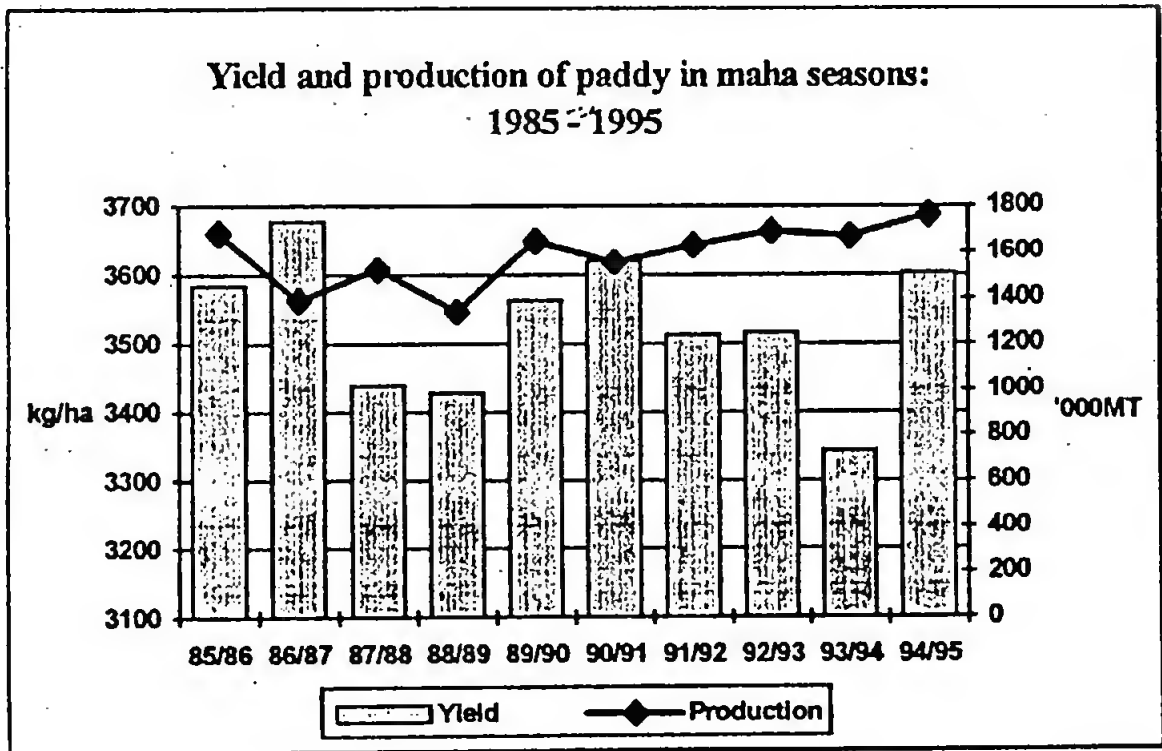
The country's paddy production increased by 6 percent from 1,670,000 MT in 1993/94 Maha season to 1,761,000 in 1994/95 Maha season as shown below. This was largely accounted by the increase of the yield by 8 percent from 3344 kg/ha in 1993/94 to 3,603 kg/ha in 1994/95 Maha season. A record harvest of paddy is predicted for the 1995 Yala season as well. Expected production in Yala 1995 is 50 million bushels.

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Table 1.1 Yield and production of paddy in Maha seasons : 1985-1995

Year	Yield (kg/ha)	Production ('000 MT)
85/86	3,585	1,684
86/87	3,678	1,390
87/88	3,440	1,524
88/89	3,429	1,342
89/90	3,564	1,647
90/91	3,620	1,554
91/92	3,512	1,630
92/93	3,516	1,692
93/94	3,344	1,670
94/95	3,603	1,761

Yield and production of paddy in Maha seasons : 1985-1995



A significant increases in the production of several other major food crops were also observed during the period under review as given below.

Table 1.2 : Vegetable production in Maha seasons : 93/94-94/95

<i>Crop</i>	<i>93/94 Maha (MT)</i>	<i>94/95 Maha (MT)</i>
Potatoes	45,707	58,236
Brinjals	36,898	39,905
Tomatoes	13,825	14,618
Cucumber	9,839	11,334
Beans	12,843	13,554
Red Pumpkin	38,144	44,573
Ash Pumpkin	37,082	41,557

2. Imports/Exports

Despite the increase in the domestic rice production, Sri Lanka has been importing wheat flour in large quantities.

Table 2.1 : Wheat flour imports and domestic rice production

<i>Year</i>	<i>Wheat flour (‘000 MT)</i>	<i>Domestic rice producton (‘000 MT)</i>
1970	374*	1,631
1975	528*	1,154
1980	468*	2,133
1985	665	2,661
1990	584	2,538
1994	674	2,683

* In these years, Sri Lanka imported wheat flour. Now raw wheat is imported and milled locally.

A programme has already been launched to make bakery products made up of rice flour popular.

Currently domestic rice production is sufficient to meet around 90 percent of the demand. Expensive varieties of rice such as Basmathy imported particularly to be used in hotels, restaurants etc. account for part of the imports. Steps are being taken to produce such varieties locally and thereby narrow down rice imports.

3. Supportive State Action

3.1 Rural Credit

In order to provide relief to heavily indebted farmers and provide continuing access to institutional credit, previous loans of the farmers were written off.

3.2 Fertilizer Subsidy

The fertilizer subsidy was reinstated in order to encourage the use of fertilizer and to provide a measure of relief to the farmers from the increased prices of inputs and depressed profit margins. The Government as present subsidizes 45 percent of the cost of fertilizer.

Further, farmers were provided market information through the media thereby strengthening their bargaining position in the market.

3.3 Marketing

The Paddy Marketing Board was equipped with necessary facilities including funds and transport to increase purchases so that farmers will have less trouble in the disposal of their produce. During the year 1994 it had purchased only 119,570 MT of paddy. By the end of October 1995, 280,000 MT of paddy was purchased.

3.4 Insurance

The Agricultural Insurance scheme was revised to increase the retirement benefits paid to farmers and also to make provisions to pass on the benefits to the dependants as well.

3.5 Land

Although over 1,180,000 deeds had been issued to settlers under various land settlement projects by 1994, restrictions on their transferability prevented their effective usage, particularly in obtaining bank loans. Under an innovative programme known as "AMA" arrangements are being made to replace such deeds with Jayaboomi deeds which transfer the ownership rights of these lands to the settlers.

3.6 Elimination of Bureaucracy

A comprehensive programme of institution building at the grass-root level called AMA aimed at increased beneficiary participation in the decision making where the bureaucracy performs a facilitatory role was initiated.

Following are the special features of the AMA program :

- * Govisevana
- * Govijana Bank
- * Govijana Lottery
- * Vegetable Development Board
- * Fruit Development Board
- * Pulses Research and Development Authority
- * Spices and Allied Products Marketing Board
- * Jayaboomi Deeds

A (ii) Irrigation

1. Policy Framework

A more appropriate division of labour between public and private sectors in the management of the nation's massive investments in irrigation facilities will be achieved.

The Mahaweli Authority will be relieved of the burden of subsidiary activities which could be undertaken by the others.

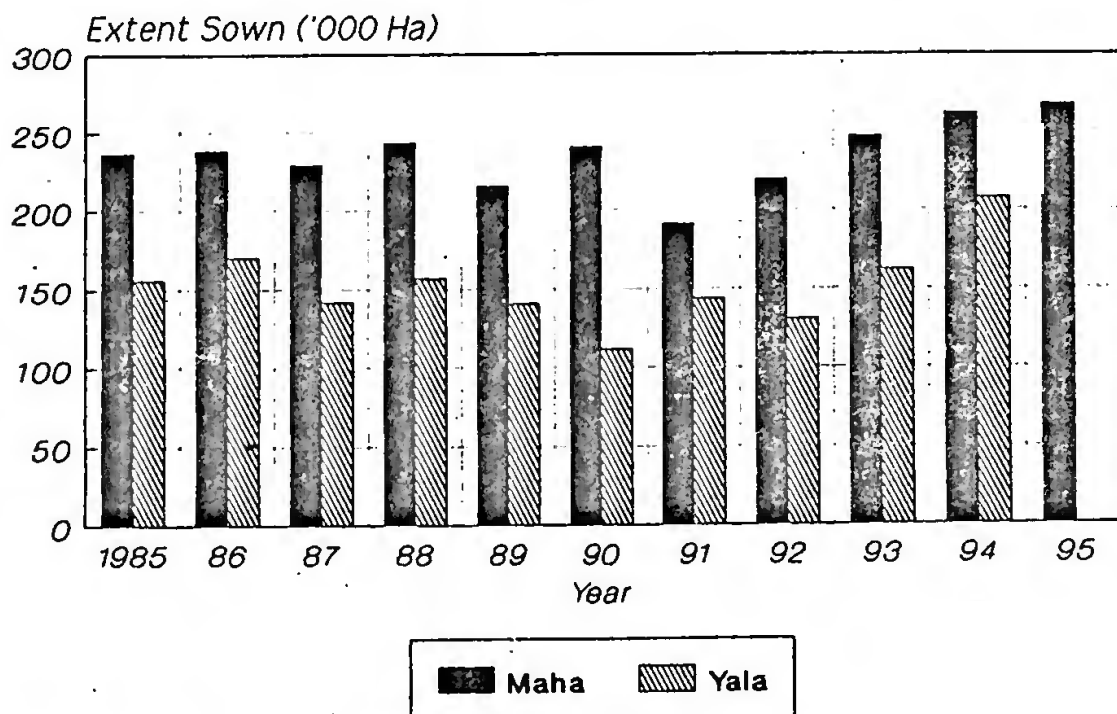
Private sector will be encouraged to invest in the outlying areas by improving infrastructure.

Farmers will be given the freedom and the capacity to make the best use of assets by removal of restrictions on land use options.

2. Production

In recent years a steady increase in the extent of land cultivated under irrigation has been observed. The extent of paddy sown under major irrigation schemes in the year 1995 Maha season was the highest ever. A similar trend is evident in the case of Yala cultivation of paddy too.

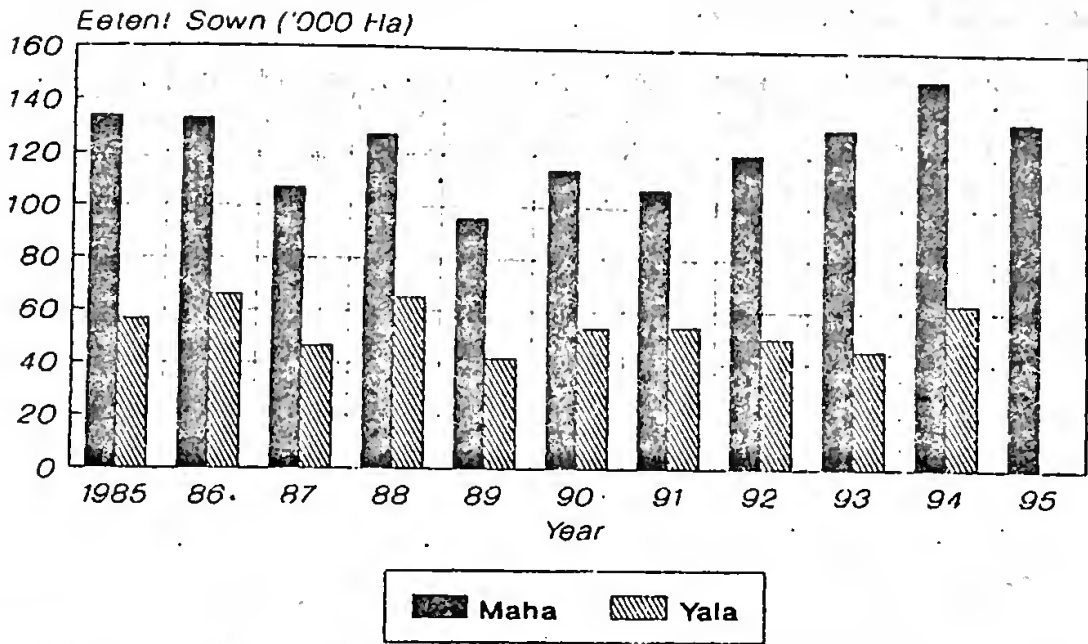
Paddy: Extent Sown Under Major Irrigation Scheme



Source: Department of Census & Statistics
Note: 1995 only for Maha Season

The trend of paddy cultivation under minor irrigation is similar but more erratic given the nature of minor irrigation schemes.

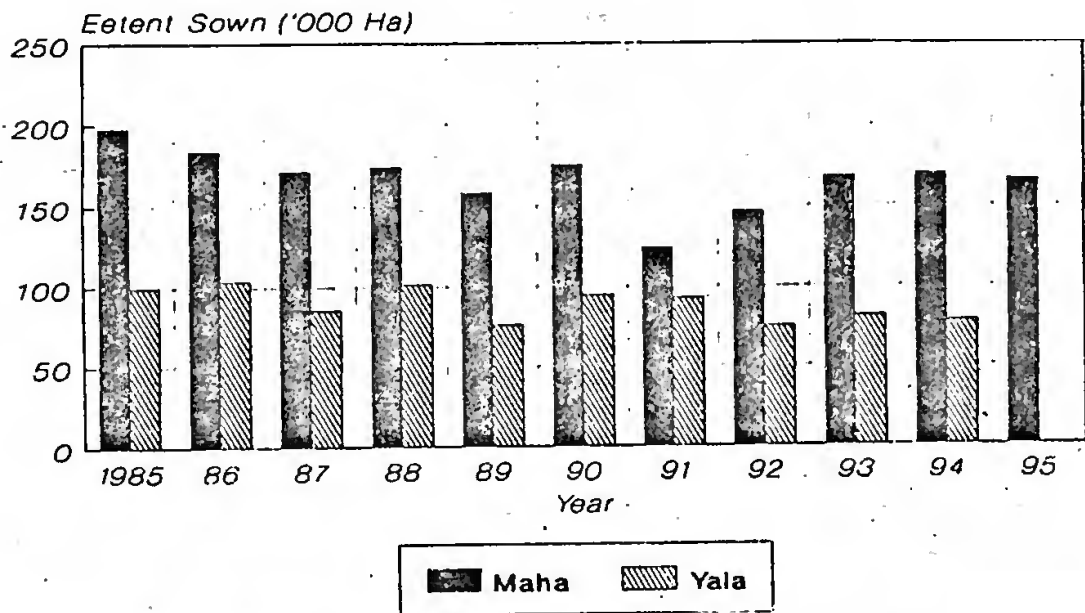
Paddy: Extent Sown Under Minor Irrigation Scheme



Source: Department of Census & Statistics
 Note: 1995 only for Maha Season

As a result, rainfed paddy cultivation in both seasons, exhibits a declining trend. Increasing extent cultivated under irrigation, accordingly has made a major impact on paddy cultivation.

Paddy: Extent Sown Under Rainfed



Source: Department of Census & Statistics
 Note: 1995 only for Maha Season

3. Foreign funded projects

The following foreign funded projects were in operation to rehabilitate, construct and maintain various irrigation schemes.

3.1 *North Western Province (NWP) 12 Tanks Project* is funded under a grant facility by the Commission of European Community (CEC) costing Rs. 375 million. By the end of 1994, 7 schemes had been completed. Three schemes in the Puttlam district are under construction.

3.2 *Minipe -Nagadeepa Irrigation Rehabilitation Project*
Cost Rs. 800 mn.
Commenced in 1988
Financed by a loan from Japanese Government
77% of the work was completed by September 1995 and will be completed by 1997.

3.3 *National Irrigation Rehabilitation Project*
Funded by World Bank and Commission of European Community.
Cost Rs. 2367 mn.

Commenced in 1991 and expected to complete by 1997.

It is expected to rehabilitate 35 major/medium and 838 minor schemes through out the country.

It will also assist establishment of farmer organizations and introduction of improved methods of operation and maintenance in rehabilitated schemes.

Already work has been completed in 2 major and 175 minor schemes and work is in progress in 19 major/medium and 157 minor schemes.

3.4 *NWP Water Resources Development Project*

North Western Province Water Resources Development Project which commenced in 1992 includes three main components, *i.e.* rural infrastructure, provision of credit to farmers and institutional support. The Project is financed by the Asian Development Bank (ADB).

The rural infrastructure component of this project will account for the rehabilitation of 9 medium and 300 minor schemes, improvements to 5 major, 17 medium and 300 minor schemes and restoration of one medium and 30 minor schemes all of which will cover about 25,000 hectares. In addition, 740 km. of rural roads will be improved.

Also credit will be provided, to individual farmers to construct dug wells and to rural women to be involved in on farm and off farm income generating activities.

Already twenty minor irrigation schemes have been completed and construction work is in progress in 70 schemes. Out of 200 km. of approved rural roads, construction work is in progress in 94 km. Utilising credit provided under the project, 83 dug wells have been completed by individual farmers and 352 rural women have established micro enterprises.

This project which commenced in 1992 is expected to be completed by December, 1998.

3.5 Bridge Across Mahaweli Ganga at Hettipola

Construction of bridge across Mahaweli at Hettipola from Matale to Badulla district.
Cost - Yen 2,075 mn.

Proposed date of construction November, 1995.

4. Government funded projects

A summary of projects funded entirely by the government of Sri Lanka in this sector are given below :

Project	District	Expenditure upto Sept. Rs. Mn.	Allocation for Rs. Mn.	Amount Spent upto Sept. Rs. Mn.
1. Ellapothana Anicut	Anuradhapura	3.25	3.0	0.048
2. Bridge Across Kala Oya (Rajangana/Puttlam-Anuradhapura Road)	Anuradhapura	-	3.0	0.73
3. Galkadawela Anicut on Malwatu Oya	Anuradhapura	2.38	3.0	0.96
4. Gal Oya River Division Rehabilitation (10 Channels & 5 Anicuts)	Amparai	-	13.0	1.51
5. Saddhatissa Wewa	Monaragala	14.9	11.0	7.73
6. Rehabilitation of 12 tanks in Medirigiriya	Polonnaruwa	-	10.0	2.26
7. Kelani Ganga Flood Bund	Colombo/Gampaha	15.8	10.0	3.11
8. Wan-ela	Trincomalee	n.a.	n.a.	n.a.

5. New Projects

Investigations have been undertaken for the implementation of the following new projects in 1996.

- (1) Diversion of Weli Oya into Monaragala District.
- (2) Construction of an anicut across Katupath Oya.
- (3) Mau Ara Diversion to Malala Oya.
- (4) Medium Irrigation Schemes in Monaragala District.
viz Mallipotha, Sugala Devi, Maila Wewa and Alugalge Wewa.
- (5) In basin Development of Nilwala Ganga - Kiralakele.
- (6) Periya Kallapu Drainage Scheme in Ampara.

Investigations have been completed for feasibility studies with JICA assistance for the Liyangastota Scheme, Muruthawela Reservoir Scheme and Badagiriya Scheme in Hambantota.

The Water Resources Board, in 1994, had conducted 259 hydrogeological surveys, while in the first nine months of 1995 the Board conducted 256 surveys. The number of tube wells constructed in 1994 was 275 and in the first nine months of 1995, was 232 tube wells.

6. The Mahaweli Programme

Total funds allocated for 1995 by the Mahaweli Authority of Sri Lanka for the Mahaweli Programme was Rs. 2,244 million while for the Uda Walawe Programme Rs. 520 million was allocated. By the end of August, 1995, Rs. 1,266 million or 56 per cent of allocated funds was released for the Mahaweli Programme.

It was targeted to settle 1,275 families in System "B" in the Mahaweli Command Area, for the year 1995. However, upto August, 1995 only 132 families could be settled in System "B", due to the resumption of hostilities in the Eastern Province. Although it was not targeted to settle any families in the other systems or at Uda Walawe, 10 families were settled in System "C" while 2,812 families were settled in Uda Walawe. Hence, a total of 2,954 families were settled upto August, 1995, of which 2,551 were non-farmer families.

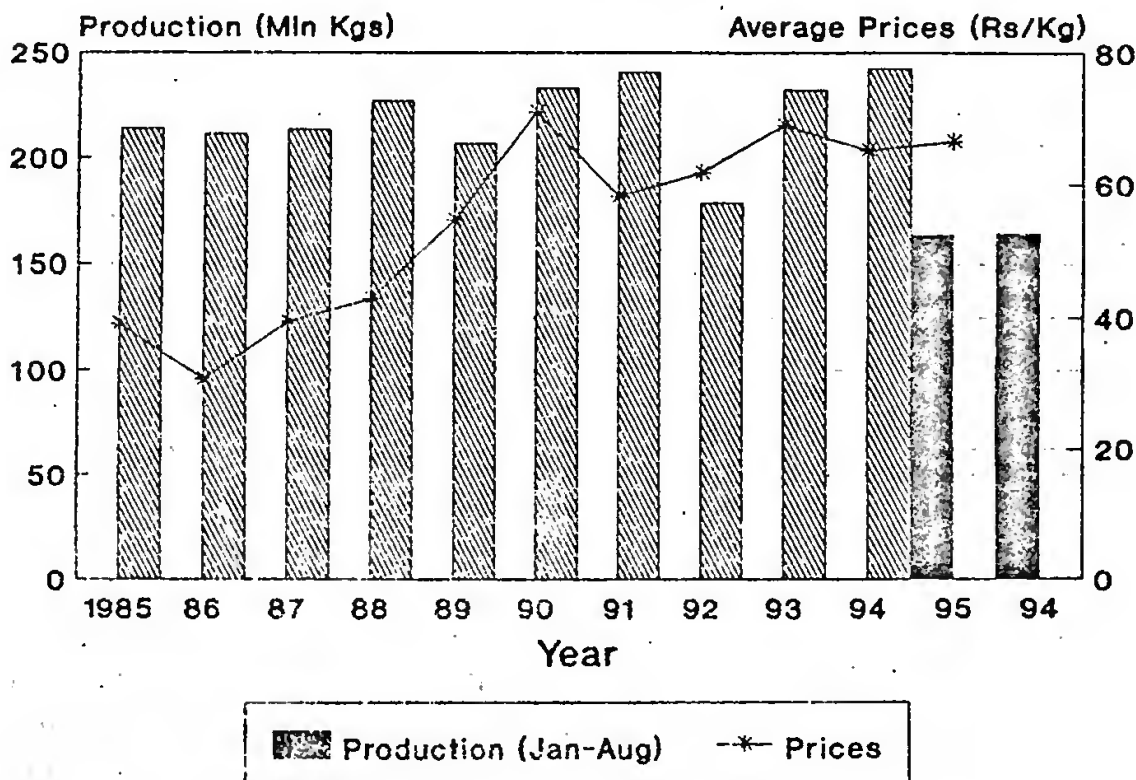
(iii) Plantation Sector

(a) Tea

1. Production

The total production of tea in the year 1995 is expected to be more or less equal to the all time record tea production of 242.2 million kilograms, for the year 1994. See the graph below. The CTC (cut, tear and curl) tea output increased from 5.3 million kilograms during January to July, 1994 to 11.9 million kilograms during the same period in 1995, reflecting an increase of 126%. The national goal of achieving a CTC tea output of around 20% of the total national tea output by year 2000 appears to be within reach.

Total Tea Production and Prices



Source : Sri Lanka Tea Board

The cumulative average tea price of the first three quarters of 1995 was about 4% higher than that of the previous year as shown in the graph above. The prices of all three elevational categories of tea appreciated significantly in the third quarter, with high grown teas recording the highest increase.

2. Exports

Exports of value added teas increased from 33.3 million kilograms during the period January to June in 1994 to 43.9 million kilograms for the same period in 1995. This increase accounted for about 31% increase in value in 1995 compared to January to June, 1994. This is a very positive development given the higher returns to the economy from the export of value added teas compared to bulk teas.

3. Supportive State Action

3.1 Planting

In the small holding sector 1,069 hectares were replanted and tea planting was undertaken in 1,800 hectares of new land. Loans amounting to Rs. 87 million and Rs. 12 million was approved for field and nursery development respectively.

3.2 Factory development

Rs. 107 million was paid as incentive for setting up 36 CTC tea factories and Rs. 14.5 million for modernization of orthodox tea factories. Rs. 27.4 million was paid as incentive to purchase 43 tea bagging machines. Loans amounting to Rs. 68 million was paid for tea factory rehabilitation.

3.3 Important events

Inaugural meeting of the International Tea Producer Forum was held in Colombo. This is considered a major achievement in promoting co-operation among tea producing countries

(b) Rubber

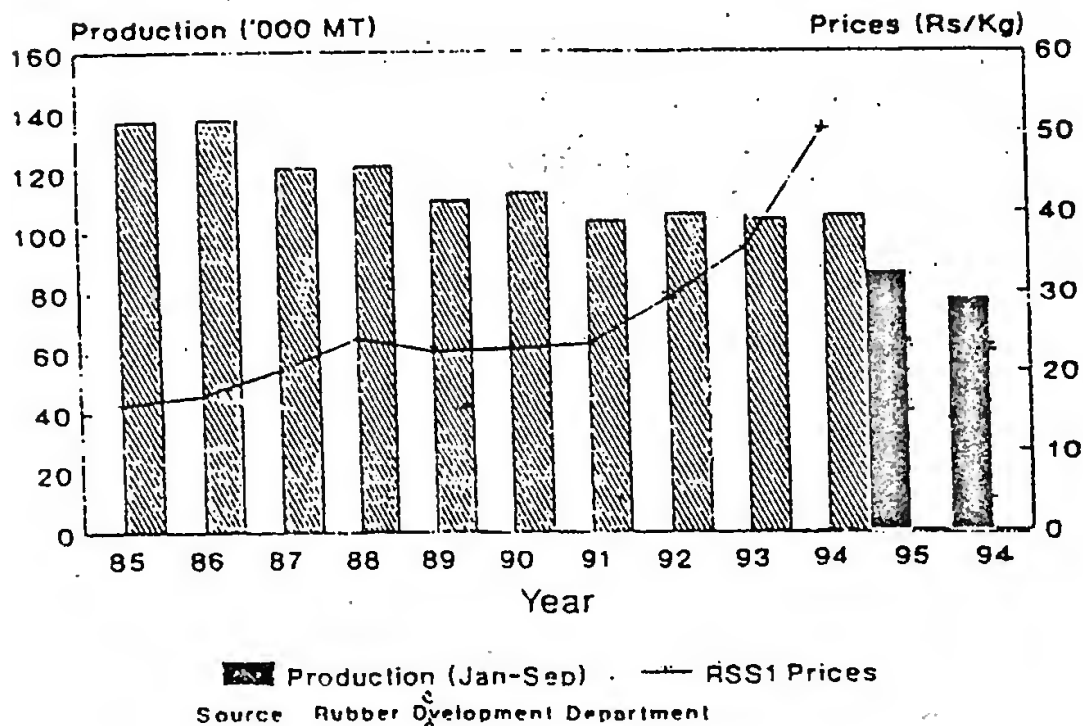
1. Production

The total production of rubber upto June, 1995 was 55.9 million kilograms, which was 9.4% higher than that of the same period of 1994 as shown in the graph below. This rate of increase had been exceeded only in years 1983 and 1975 during the last two decades. The production of sheet rubber and latex crepe increased significantly during this period. The relatively high price of sheet rubber which is a low cost product compared to crepe rubber influenced this shift.

2. Prices

As seen from the graph below, the average rubber prices of the current year (upto August) are higher than those observed in the year 1994. The average f. o. b. price for all rubber up to June, 1994 which was Rs. 45.30 per kilogram increased to Rs. 82.20 per kilogram during the same period in 1995. The price of RSSI averaged at Rs. 77.62 per kilogram compared to Rs. 41.73 per kilogram in the same period of the previous year.

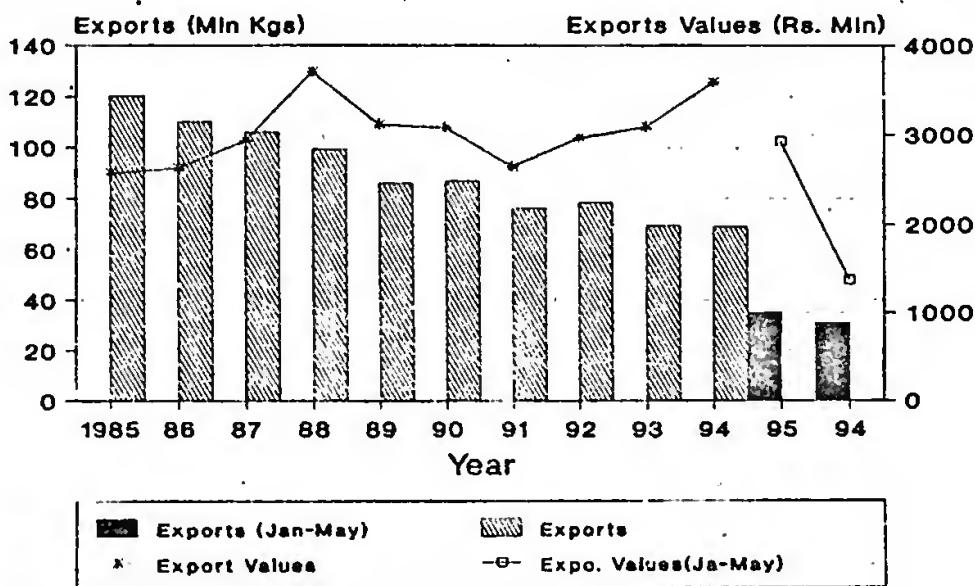
Total Rubber Production and Prices



3. Exports

The volume of rubber exports has been steadily declining in the recent years due to reduced output as well as increased consumption of raw rubber by domestic manufacturing industries. As seen from the graph below, the value of exports has increased after 1991, due to increased rupee prices.

Rubber: Exports Volumes and Values



Source: Central Bank Report

4. Supportive State Action

4.1 Planting

Replanting and New Planting subsidies were increased by over 30% with effect from 01.01.95, from Rs. 15,000 and Rs. 14,500 per acre respectively. In the small holding sector a total extent of 2,031 hectares of rubber were replanted, and 723 hectares of new land was planted. Steps were taken to improve the supply of planting material by the adoption of green budding and young budding techniques in 20 plant nurseries. Polythene covers for rain guards was distributed free of charge to increase the number of tapping days.

4.2 Co-operative societies

229 rubber small holder co-operative societies were established. Direct exportation of rubber by co-operative societies commenced in the Kalutara district.

4.3 Training

600 rubber tappers were trained in Galle and Matara districts in association with the Intergrated Rural Development Projects.

(c) Coconut

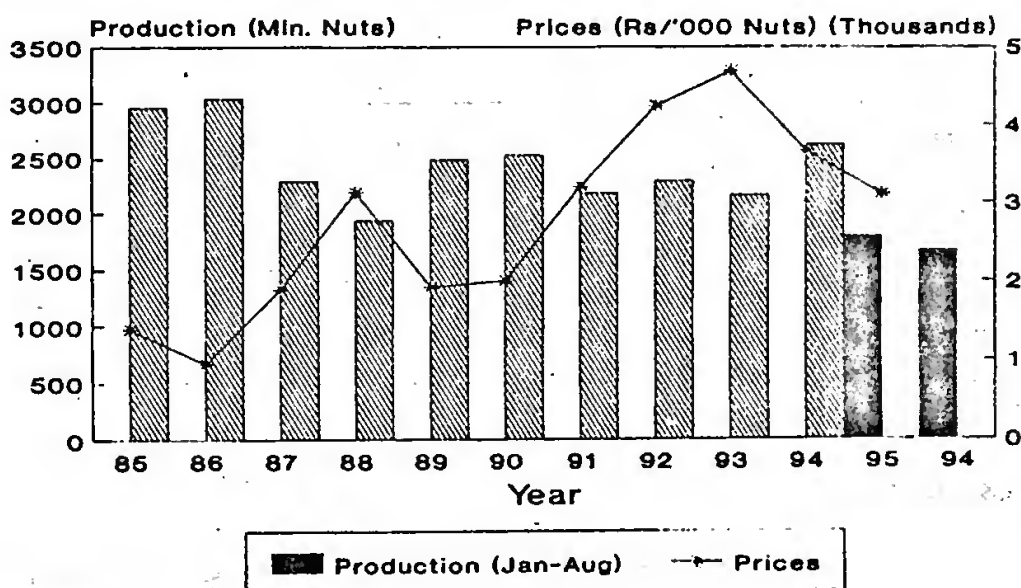
1. Production

Coconut production during the period from January to June, 1995 was 1,334 million nuts as shown below, compared to 1,233 million nuts in the same period of the previous year indicating an increase of 8%.

2. Prices

The domestic market price of fresh nuts was lower than that of the previous year as shown in the above graph. The average export price (f. o. b.) of kernel products were slightly lower than those of the same period in the previous year.

Total Coconut Production and Prices



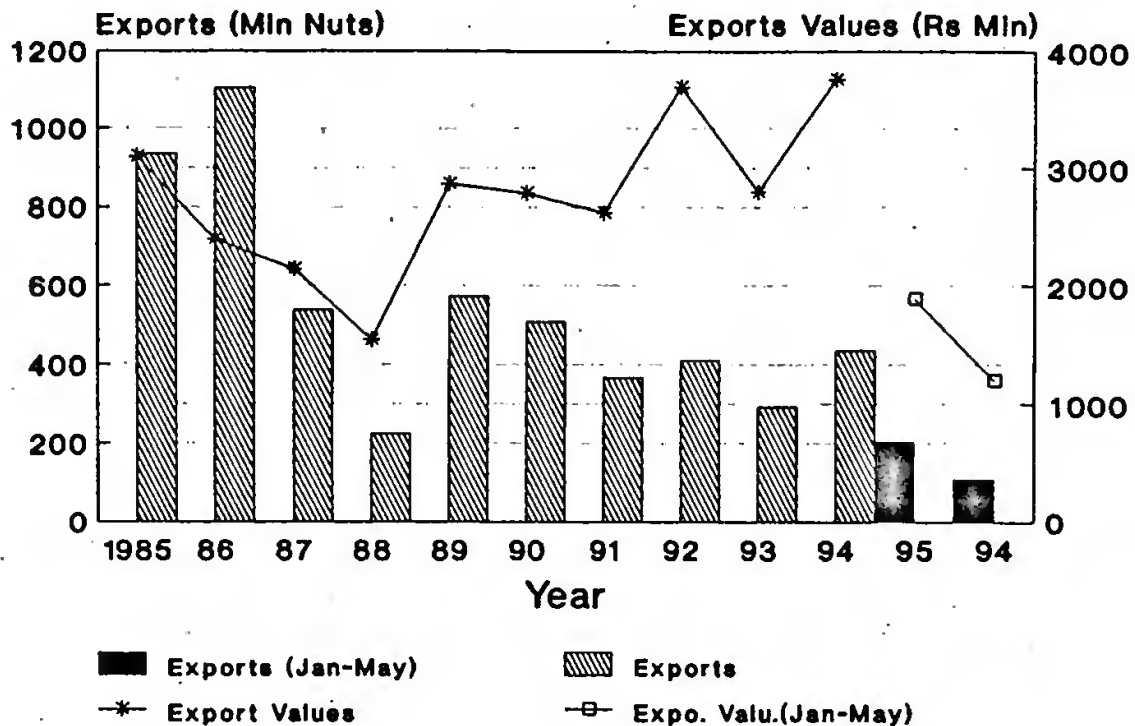
Source : Coconut Development Authority

Note : 95 Prices up to July.

3. Exports

During the period January to June, 1995 among coconut kernel products, the export of fresh coconut declined marginally, but Copra, Coconut oil and DC exports increased by 36%, 16.8% and 28.7% from 913 metric tons, 2,188 metric tons and 19,239 metric tons respectively compared to the same period in 1994. Among non kernel products a 2% increase was seen in activated carbon.

Coconut : Exports Volumes and Values



Source : Central Bank Report

4. Supportive State Action

4.1 Planting

1,202 hectares of coconut land was replanted and 1,030 hectares of new land were planted to coconut. Inter cropping was done in 1,207 hectares of coconut land. 9,365.7 hectares were planted in home gardens. Moisture conservation activities were undertaken in 1,481 hectares of coconut land.

4.2 Processing facilities

A total subsidy amounting to Rs. 6.3 million was paid to develop 15 DC mills and 41 fibre mills.

(d) Sector-wide Supportive State Action

1. Reform Issues

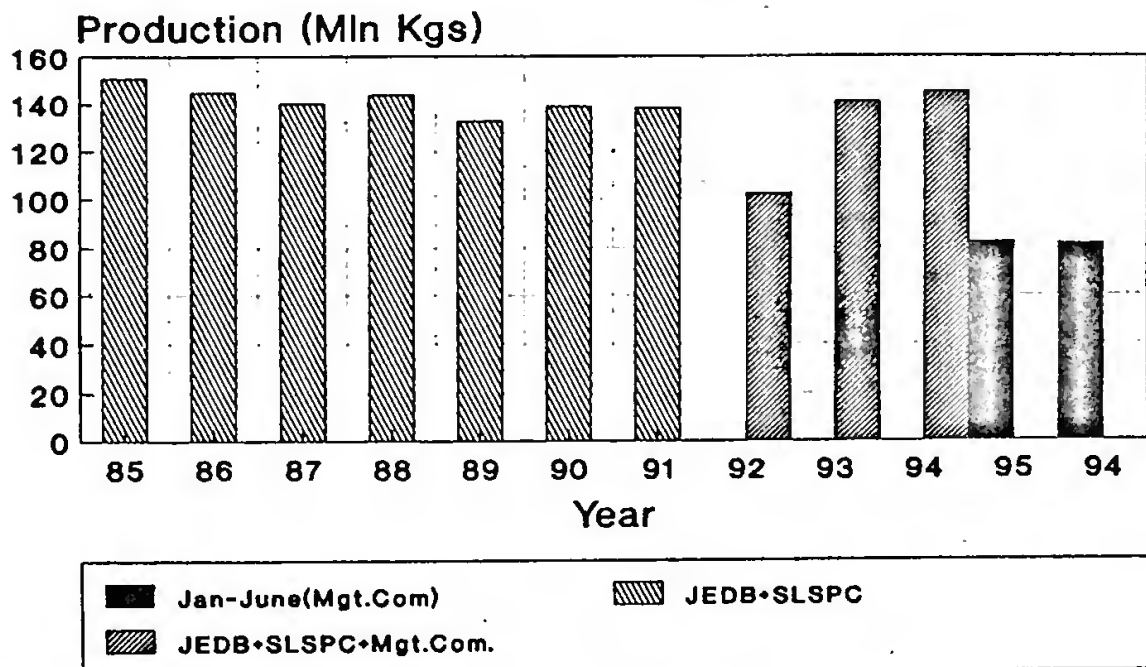
This sector urgently requires a large injection of long term capital to improve productivity as a means of improving wages and social infrastructure in a sustainable manner. Current regulations will be changed to provide transferable long term leases and greater flexibility of land use. Existing companies as well as new investors will be allowed to bid for these leases. Successful bidders will be required to provide equity capital.

Collective agreements between plantation companies and trade unions which recognize the mutual obligations and responsibilities of workers and management will be encouraged.

2. State Owned Plantations

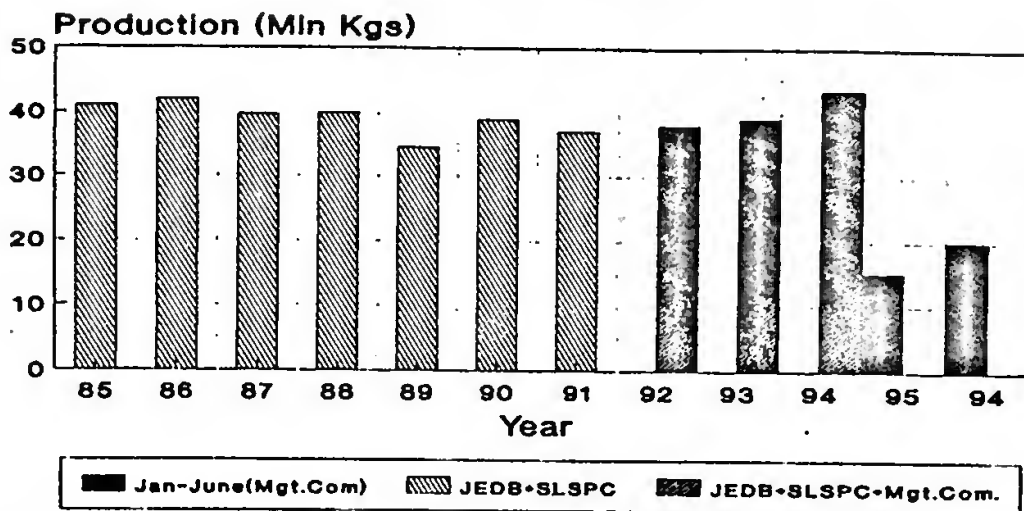
A significant turn around in the tea output of the state owned plantations has been achieved since the year 1992. The output of the year 1994 was highest since the year 1985. The comparative performance of the plantation companies from January to May, 1995 and the same period of 1994, suggests a further improvement in the year 1995 as shown below.

**State Plantations
Tea Production**



Note : 1992 due to the privatisation Programme

State Plantations Rubber Production



Note : 1992 due to the privatisation Programm

A similar trend has been observed in the case of rubber as well. However, the high rainfall experienced in the rubber growing areas in the first half of the year and the resulting reduction in tapping days, has reduced the rubber output of the plantation companies in the first five months of the current year compared to the previous year.

2.1 . Social infrastructure development

The development of social infrastructure for the residents in the state owned plantations was continued with greater interest and commitment than ever before. Following are some of the major achievements in social infrastructure development in the state owned plantations during the period.

- Construction of 138 self help housing projects for 2,780 families commenced. The work benefiting 20 families was completed.
- The re-roofing of 412 line room sets occupied by 2,051 families. Re-roofing of further 16 line rooms is in progress.
- The construction and commissioning of 264 water supply schemes benefiting 14,460 families. Construction of a further 487 water supply schemes providing to 30,094 families is in progress.
- The construction of 2,592 latrines were completed, construction of another 13,999 is in progress.
- The construction of 195 child health care units benefitting 28,350 families. Further 243 such units aimed at 40,052 families are in progress.

2.2 Other major initiatives

Reviewing and restructuring of plantation institutions are underway to meet with the current challenges in the respective crop sectors.

Sri Lanka tea board, Tea Small Holding Development Authority, Coconut Cultivation Board, and Sugar Research Institute review proposals have been completed, and that of the Rubber Research Institute is nearing completion. Most of the recommendations of the review of the Tea Research Institute have been implemented.

The 10 managing companies of the regional plantation companies (RPCs) which made operational profits during the year 1994, registered to purchase controlling interest of their RPCs at a price determined by the sale of 20% of the shares at the Colombo stock exchange. The sale of shares of 4 RPCs – Bogawantalawa plantations Ltd., Kotagala plantations Ltd., Agalawatta plantation Ltd., and Kegalle plantation Ltd. - have already commenced. The entire process for the privatization of the shares of the 23 RPCs is expected to be concluded within 6–9 months.

A US \$ 60 million loan from the Asian Development Bank (ADB) to finance major investment programs in the plantations was negotiated during this period and will be effective from early 1996. Initial discussions have been held for co-financing of this project to a value of US \$ 40 million by the OECF of Japan.

Discussions commenced for another US \$ 20 million ADB funded project for improving degraded plantations managed by the JEDB and SLSPC. The project is expected to be effective by early 1997.

Fisheries

1. Policy Framework

The thrust of the Government effort in the fisheries sector will be to place a greater reliance upon the private sector for the production, processing and marketing of fish products, and to reorient the role of public sector towards market based resource management and regulation. The key elements of the Government programme to modernize this sector were :

- Infrastructure provision by the Public Sector,
- Greater beneficiary participation,
- Special scheme for modernising the fleet,
- Legislation to protect the sea and aquatic resources, and
- Establishment of a Fisheries University Institute.

2. Production

During the period January to August, 1995, the total production of fish both marine and inland increased by 5% to 132,900 metric tons, compared to the total production during the same period in 1994.

Fish Production (Metric tons)

	<i>Marine</i>	<i>Inland</i>	<i>Total</i>
1994 achievement	212,200	12,000	224,200
1995 target	226,119	17,300	243,499
1994 Jan.–June achievement	117,600	9,000	126,600
1995 Jan.–June achievement	121,900	11,000	132,900

3. Exports

Licenses have been issued to 24 large vessels owned by local and foreign joint enterprises. The resulting catch amounted to 3,137 tons of which 2,421 tons were exported. The employment generated amounted to 100. 7 more projects to the value of Rs. 1,690 million have been approved by the BOI. The expected employment generation amounts to 870..

Sri Lanka - Maldives fishing subcommittee was set up with the intention of mutual protection and promotion of the fisheries industry.

4. Supportive State Action

4.1 Fisheries Harbours

A major area of Government investment in the sector has been the rehabilitation of fisheries harbours. The Kirinda fisheries harbour was rehabilitated with an expenditure amounting to Rs. 1,000 Million. This will provide harbour facility to 200 fishing boats along the south-eastern coasts.

Modera fisheries harbour was extended by 42 meters at a cost of Rs. 3.2 million expanding harbour and anchorage facilities to another 35 fishing boats, and enabling year round fishing in the high seas.

The other harbour rehabilitation activities took place in Puranawella, Mirissa and Beruwala. The total costs of these activities amounted to Rs. 68 million.

4.2 Construction of new Fisheries Harbours

Costal investigation were conducted in Chillaw, Dikowita, Panadura, Hikkaduwa, Kottegoda and Kudawella to ascertain the feasibility of constructing fisheries harbours and anchorages.

4.3 Coast Conservation

Coast conservation measures were taken to protect the coastal areas of Lunawa, Kahawa, Trincomalee and Kalmunai. Coastal Investigations commenced in Kottegoda, Edandawela and Mirissa areas and aerial surveys were conducted along the coasts between Tangalle and Kalpitiya with the assistance of the Asian Development Bank (ADB). Coast conservation work undertaken during the period amounted to Rs. 74.9 million.

4.4 Boat subsidy scheme

757 traditional fishing crafts, 152 day boats, 42 multiday boats, and 106 boat engines were provided under a special subsidy scheme. The total subsidy amounted to Rs. 92 million. The fish production is expected to increase by 5,800 tons and employment by 3,500.

4.5 Tax Reliefs

Boat engines and other fishing implements were exempted from turn over taxes. Custom duties on fishing net twine and threads were reduced by 10%.

4.6 Dock Yards

The Mattakkuliya Dock Yard was re-opened. 80 fibre glass boats and 2 multi day boats have been constructed during this period. 20 persons were employed.

4.7 Fishing implements and boat engines

Fishing implements worth Rs. 90 million have been produced during this period. Two net weaving machines were ordered for the Lunuwila net weaving centre. A net sales centre was opened in Matara generating 20 employment opportunities, while another has been planned for Chilaw. Sri Lanka commenced importation of boat engines from China, and already 4 engines have been imported. These are available at a price lower than the previous market price.

4.8 Ice Plants

The ice plants at Batticaloa and Anuradhapura were rehabilitated with the assistance of the ADB. Two new ice making machines were installed at these ice plants. The total expenditure amounted to Rs. 25 million.

4.9 Domestic market

With a view to providing the consumers fish at a lower price the Fisheries Corporation established 25 fish sales centres during the period under review. Employment opportunities thus created amounted to 50.

4.10 Research and training

A total of 648 persons were trained on engine, fisheries and other technologies. The cost of training amounted to Rs. 21.3 million.

A 24 month survey on fisheries resources was conducted with the assistance of the Asian Development Bank. In addition a number of research studies on fisheries biology and on socio-economics were undertaken during this period.

4.11 Provision of utilities

Concerted efforts were made to uplift the welfare of the fishing population. Drinking water supplies, electricity, road access, health, sanitary, education and recreation facilities, and Beacon lamps were provided. The exact number are as follows :

Drinking water wells	24
Community centres	19
Children's parks	7
Latrines	558
Beacon lamps	10

385 villages benefitted by this project. Further temporary employment was provided to 4,100 persons. The total cost of these projects amounted to Rs. 20.76 million.

4.12 *Social Security*

1,561 fishermen have been registered under the fisheries retirement and social security scheme. The government's contribution amounted to Rs. 63.9 million.

5. *Inland Fisheries*

In 1990 the government withdrew its official assistance for the development of inland fisheries and as a result the total production of inland fisheries declined to 12,000 metric tons in 1994 from a peak production of 40,000 metric tons in 1989. This affected employment and increased malnutrition among the rural population. Providing support and assistance to the inland fisheries industry is a main policy change effected by the present government.

5.1 *Aqua culture development centres*

Rs. 6.13 million were spent in the rehabilitation of the aqua culture development centres in Udawalawe and Dambulla.

5.2 *Production of fingerlings and rearing in fresh water tanks*

7 million larva of Indian Carp and local Carp were produced and reared up to the stage of fingerlings at the Udawalawe and Dambulla Aqua Culture Centres. Of this 0.35 million fingerlings were introduced into 36 inland tanks in Ratnapura, Hambantota, Moneragala and Matale districts and to a few more tanks in Badulla and Kurunegala districts. Seminars were conducted to increase awareness among the inland fisheries extension staff and groups of selected farmers from Matara, Ratnapura, Hambantota, Moneragala and Badulla districts.

5.3 *Prawn Culture*

Licenses were issued to 29 projects for prawn culture of which 6 projects cover an extent of over 4 hectares each and the balance less than 4 hectares each. These cover an area of 94 hectares and generates 700 employment opportunities. The production is expected to increase by 360 metric tons. Another prawn culture project has been planned for the Puttalam district.

20 prawn breeding projects were approved. The total production is expected to be 298 million prawn fingerlings per annum and employment opportunities to 150 persons. The expected value of the output is Rs. 150 million.

5.4 *Other Policy measures*

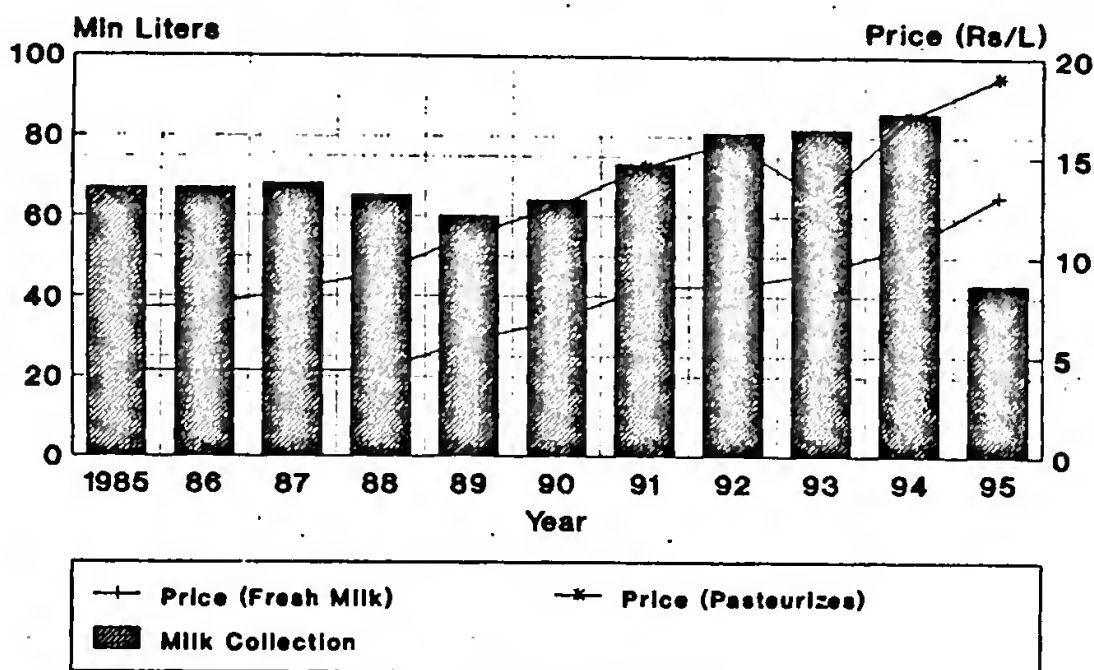
Prohibition of irregular fisheries activities in the Southern Province, regulation of exportation of live aquatic resources and tabling of the new Act on Fisheries and Aquatic Resources replacing the old Fisheries Act were the policy measures taken during the period under review.

A(v) Livestock

1. Production

The development of the dairy industry is a major priority within the livestock sector. A steady increase in the collection of milk had been observed since the year 1989 with 1994 recording the highest level ever due to sharp increase in producer price in 1990 and again in 1994. The performance upto June, 1995 suggests the potential to improve on this achievement during the current year. However, from mid 1980s, the price paid to local farmers has remained stagnant in real terms.

Milk : Trends in Milk Collection & Producer Prices



Source: Ministry of Livestock Development
Note : For 1995, Jan-June

The poultry industry, a pre-dominantly private sector based activity, recorded a very encouraging performance during the period under review. This involvement of private sector continued to be supported by tariff concessions in the importation of feed ingredients, breeding materials, etc. The total number of private hatcheries increased to 46 and the production of broiler chicks was in the region of 37 million with layer chicks accounting for 25 millions. During this period both egg and meat production increased significantly, raising the per capita availability of eggs to 44.4 and meat to 2.17 kilograms.

2. Supportive State Action

2.1 Animal breeding and stock improvement

During the period under review approximately 93,860 artificial inseminations (AIs) have been carried out. 100 youth were trained in AI techniques to improve services to dairy farmers. Procurement of AI equipment to the value of Rs. 16 million is underway.

A support scheme for raising heifer calves up to the age of 30 months was undertaken during this period. This program will help the rural farmers to avert the loss of valuable female calves. The number of farmers supported by the program was increased to 5,767 with the government investment amounting to Rs. 15 million. Increased numbers of breeding material and stock were issued to rural farmers. 8,693 cattle bulls, bull calves and heifer cows, 2,679 buffalo bulls, bull calves and heifer cows, 17,961 goats, 26,109 male and female breeding pigs, and fatteners and 13.47 million of layer and broiler chicks were issued during this period,

To meet the increasing demand for chicks from small farmers, two new incubators were installed at the National Livestock Development Board hatcheries, resulting in a capacity increase to 3 million broiler chicks and 1.7 million layer chicks.

2.2 Disease control

12.1 million numbers of poultry, 1.4 million cattle and buffalo and 33 thousand pigs were immunized against the common animal disease.

A project was launched to strengthen "cattle plague" disease prevention activities. The FAO provided US \$ 0.3 million assistance.

The international Atomic Energy Authority of the United Nations extended assistance to monitor the disease situation in poultry breed farms. The total grant amounted to Rs. 10 million.

2.3 Farmer Training

Field veterinarians held 8,290 field days and training classes in addition to 84 other training programs were conducted during the period under review. A total of 121,126 farmers participated in these programs.

2.4 Cadre development

The cadre of veterinary surgeons was increased by 116 new posts. Services of veterinary Surgeons to rural farmers throughout the country has been made available.

2.5 Sri Lanka – ADB livestock development project

Project negotiations took place in the period under review. The focus will be on the development of the dairy sector in the country. Project cost is estimated to be around US \$ 25 million.

B. Industrial Development

1. Introduction

In the context of Sri Lanka's future development, the industrial sector offers the maximum potential to facilitate rapid growth of out-put and employment. This has to be accomplished through sustained outward orientation of the sector in an open liberal and stable economic environment.

2. Development Goals and Policy

The government policy statement of January, 1995 has outlined the following policy framework for industrial development in Sri Lanka :

- (a) Our industrial policy is based on the experience of the high performing economies of Asia. The government will foster environmentally friendly and sustainable industrial growth through the establishment of macro-economic stability which would lead to lower inflation and interest rates. This, together with a more open trade regime and flexible exchange rates, will lead to a dynamic, internationally competitive, export oriented, diversified industrial sector which will become increasingly more technologically sophisticated.
- (b) The government will provide an open and transparent legal framework and a market - friendly investment climate to the private sector. Government interventions will be confined to areas where markets clearly fail.
- (c) Protecting inefficient industries will not assist rapid and sustainable industrialization and social equity ; such policies have been rejected by the dynamic economies of Asia including China and Vietnam.
- (d) The Government will make appropriate changes and move towards a simpler, transparent system of incentives which will eliminate room for corruption and inefficiency, as part of its on-going program of trade liberalization.
- (e) The Government will assist the establishment of efficient small and medium scale industries which can be a vehicle for broad based industrialization and employment growth.
- (f) The vocational training system will be extensively restructured so as to be demand driven, in co-operation with the private sector who will be the eventual employers. A skills Development Fund will be inaugurated to establish an effective system of skills training.
- (g) With the active participation of the private sector, there will be extensive restructuring of the Government's industrial research and development institutes.
- (h) Non-polluting large and small scale industries will be encouraged in the rural areas with a view to promoting regional development. Infrastructure would be developed to encourage private sector investment in these areas.
- (i) The promotion of agro-based industry and the manufacture of finished agricultural products would be given priority".

3. Performance of the Industrial Sector

3.1 Industrial Growth and Diversification

Output grew by 8 percent during the first half of 1995 compared with the same period in 1994. Private Sector output grew by 12 percent.

While the traditional sub sectors of textiles, wearing apparel, and leather products ; food beverages and tobacco ; wood & wood products, recorded healthy increases there was substantial improvement in the new export oriented products of Jewellery, Machinery, Mechanical, Electrical, and Chemical Products.

3.2 Industrial Exports

Industrial Exports recorded a substantial increase from Rs. 74, Billion for 8 months of 1994 to Rs. 93 Billion during the same period, 1995, suggesting a 25 percent increase per annum.

TABLE 3 (B) I

Selected Industrial and Mineral Exports

(Rs. Mn.)

Item	Jan.-Aug. 1994	Jan.-Aug. 1995	% Change
<i>Manufacturing</i>			
*1. Food Beverages and Tobacco	2.6	3.2	25.9
*2. Textiles and Wearing Apparel	48.4	60.6	25.1
*3. Chemical Products	1.3	1.7	31.4
4. Petroleum Products	2.5	2.6	1.9
5. Leather, Rubber, Paper, Wood and Ceramics	10.8	13.6	25.5
*6. Machinery, Mechanical and Electrical Appliances	2.9	3.9	36.2
*7. Jewellery	0.5	1.1	84.6
8. Diamonds	4.2	4.8	14.3
9. Other	0.8	1.0	29.1
Total Manufacturing	74.1	92.5	24.8

* Sectors that have recorded high increases.

Source : Central Bank.

3.3 Employment

In the Manufacturing and Mining sectors, the total employment increased to 920,000 by the first quarter of 1995, a 20 percent increase over the level in the second quarter of 1994.

4. Supportive State Action

4.1 Regional Industrial Development

The Ministry of Industrial Development has launched a programme of Industrial Estate Development in order to provide infrastructure needed for private investment. The location of sites is dispersed outside the present concentrations in and around Colombo with a view to reducing pressures on environment, health facilities, demand on land, and housing. This will be in accordance with the objective of environmentally friendly development.

1. An industrial estate development programme : includes two large scale estates of international standard, set up at a cost of about Rs. 2 Billion.

- (i) Seethawaka Industrial Estate consisting of 400 acres, accommodating 70 industrial units, employing 20,000 direct and 40,000 indirect labour. Types of Industries — Gems & Jewellery, Rubber based; Food Processing, Textile & Non quota garments and other light Engineering industries.

- (ii) Katana Industrial Estate - 200 acres, accommodating 40 industrial units employing 8,000 direct and 16,000 indirect labour. Types of industries- Heavy Machinery, Electronics, Fabricated Metal and other male workforce oriented industries.
- (iii) Another 19 regional level industrial sites have been identified where development work will be by the private sector. Government will provide infrastructure only upto the perimeter of the sites. Development will commence in a few sites by end of 1995 while Kalutara, Matale, Thambuttegama and Arachchikattuwa will commence in 1996.

Identified Industrial Sites

<i>District</i>	<i>Division</i>	<i>Extent</i>	<i>Name of the Land</i>
1 Gampaha	Minuwangoda	5.6 Hec.	Waljapalawatta
2 Hambantota	Ambalantota	37 Hec.	Lunamakanda
3 Hambantota	Katuwana	20 Hec.	Mideniya
4 Anuradhapura	Palugaswewa	75 Hec.	Habarana State Land
5 Anuradhapura	Thambuththegama	17 Hec.	Mahaweli Land
6 Anuradhapura	Ipologama	4 Hec.	Senapura
7 Anuradhapura	Thalawa	37 Hec.	Amunukole
8 Kalutara	Kalutara	20 Hec.	Fullerton Estate
9 Galle	Karandeniya	20 Hec.	Uragasmanhandiya State Land
10 Matale	Matale	50 Hec.	Nalanda Watta
11 Matara	Welipitya	64 Hec.	Udukawa CTB Land
12 Badulla	Redimaliyadda	30 Hec.	Gemunupura
13 Badulla	Mahiyanganaya	30 Hec.	Viyani Camp
14 Moneragala	Buttala	18 Hec.	Estate Land
15 Moneragala	Bibile	26 Hec.	Pitakumbura State Land
16 Puttalam	Arachchikattuwa	27 Hec.	Manaveriya
17 Puttalam	Arachchikattuwa	27 Hec.	Tambankale
18 Puttalam	Arachchikattuwa	75 Hec.	St. Martin Estate

4.2 Manpower Training for the Textile and Clothing Industry

Manpower training for the Textile and Clothing industry is undertaken by two specialized institutions : the Clothing Industry Training Institute (CITI) and the Textile Training and Service Centre (TTSC). Last year the two institutions trained over two thousand persons. As improvement in quality and productivity of the sector will be important for the industry to remain competitive, the training agencies have to be upgraded in line with the needs of the market. The Government has already negotiated assistance from the Japan International Co-operation Agency (JICA) to upgrade the training institutions. Accordingly a five year technical assistance project is scheduled to start in 1996.

4.3 Small and Medium Scale Industries

The small and medium scale industries will be assisted to create efficient units that could support the policy of employment creation. The estimated potential employment over the next 5 years from this sector is 250,000. Under the World Bank assisted credit schemes, a cumulative sum of Rs. 3,396 mn. has been obtained by this sector and a total of 6,461 projects have been set-up as at end December 1994. Mechanisms to solve problems relating to production technology, product quality, labour training, marketing and finance will be put in place and guidance will be offered in respect of marketing and sub-contracting arrangements. Linkages will be encouraged with the BOI projects and trading houses, and also with large scale and modern industrial enterprises. Special lines of credit or windows for SMIs, including micro enterprises, will be arranged within the prevailing structure of commercial and development finance institutions. With a view to reducing the cost of capital and assisting those small & medium industry that lack collateral for commercial borrowing an Equity Fund will be set up.

TABLE 3 (B) 2

Progress of SMI IV Project

	Aug. 93-94	Aug. 94-95	% Change
1. No. of Projects	1,827	1,183	-
2. Investment (Rs. Mn.)	4,787	5,065	5.8
3. Sub Loans (Rs. Mn.)	929	1,055	13.5
4. Employment Potential (Nos.)	8,544	7,311	-

Source : National Development Bank.

C. Trade and Tourism

1. Introduction

Being an open economy with a large international trade sector, promoting free flow of trade, both external and internal is considered an important objective of Sri Lanka's development process. Trade policies particularly those relating to tariffs, licensing, quotas, trading enterprises, international and regional agreements have an important bearing on the domestic production, price levels and incomes.

2. Policies and Issues - External Trade

During the last one year the country's growth strategy based on trade liberalization continued with

- lowering licensing controls on foreign trade.
- rationalizing the tariff structure.
- shifting towards a flexible exchange rate system.
- relaxation of import/export procedures

License control exists only for 4 categories, of exports.

- coral chanks and shells
- wood and articles of wood
- ivory and ivory products
- motor vehicles registered prior to 1945.

Import license requirement remains for 280 items, while Tariff structure has been reduced to 3 Bands. viz. 35, 20 & 10%. The medium term objective of this policy is to achieve a uniform low tariff rate, for all industrial imports, as a means of enhancing competitiveness in local industry.

In order to achieve the benefits of international trade, Sri Lanka ratified the Final Act of the Uruguay Round and the agreement on World Trade Organisation 1994.

Issues regarding the integration of textile and clothing into Free Trade/WTO/GATT is being studied by the Government. The Government is also examining whether we should implement the provisions of the WTO agreement on Anti-dumping in order to offset or prevent material injury to domestic industries by dumped imports as defined in the Agreement and the need to enact special legislation for this purpose.

With a view to promoting regional economic co-operation and trade, Sri Lanka is participating in the South Asian Preferential Trading Arrangement. National schedules of concessions to be granted to the member states, covering 226 items were sanctioned in 1995.

To diversify the export structure fiscal incentives such as the Duty Rebate Scheme, Manufacture - In-Bond Scheme and Duty Free clearance of machinery schemes are continuing.

3. Activities of the Export Development Board

The Government has taken several steps to improve exports and achieve the target of 10% growth in the "Decade fo Exports".

1. The National Export Development Plan 1996-2000 is being formulated by the EDB.
2. EDB has launched the Export Promotion Windows Programme to exhibit industrial products, in Sri Lanka missions overseas.
3. A "Trade Point" - a one - stop documentation centre, has been set up by the EDB.

Financial assistance amounting to Rs. 35 million under 12 schemes, has been granted by the EDB. This assistance is aimed at

- improving managerial skills,
- marketing and product development,
- participation in trade fairs and exhibitions,
- setting-up foreign offices for export promotion and export trading houses.
- Equity participation in export oriented projects.

Integrated development programmes for selected products implemented by the EDB Cover different aspects of product management eg. designing for the Japanese market led to orders for Rs. 20 million. brought in by the International Tokyo Jewellery Show.

A programme has been launched at the Provincial level to promote exports as a new concept. Offices were established in Central, North Western & Southern Provinces, at a cost of Rs. 4 million. 200 enterprises have been identified and export opportunities created.

The EXPO' 94 conducted in October, 1994, has generated export business to the value of Rs. 720 million.

4. Internal Trade

Policy on Internal Trade focused mainly on assuring consumer protection. The Department of Internal Trade concentrated on enhancing consumer services.

4.1 *Activities of the CWE*

The CWE expanded its activities for the welfare of consumers by providing an improved internal trade network. In this regard it has launched the following schemes.

4.1.1 *Retail Sales Service*

(a) New Retail outlets were established in selected townships, in Veyangoda, Battaramulla, Vennappuwa, Hakmana, Koggala & Nawala.

(b) Modernization of Retail Shops was carried out at a cost of Rs. 1.3 million.

(c) Relocation of Retail Shops was carried out in Hambantota.

4.1.2 *Franchise Agency Shop Scheme*

Under this concept 6,369 agents from the private sector and 1,528 from co-operative outlets, were awarded Franchise Status. The objective is to improve supplies of basic commodities at the local level.

4.1.3 *Vegetable Marketing Scheme*

5 centres have been set up at a cost of Rs. 6.4 million. to purchase vegetables direct from farmers to enable the farmers to get higher prices for their products and to stabilize vegetable prices for the benefit of the consumers.

4.1.4 *Packeting Centres*

To satisfy the demand of the franchise agency shop scheme, two packeting centres with an investment of Rs. 6.4 million. have been set up in Rajagiriya and Veyangoda.

5. Tourism

5.1 Tourist Traffic

The number of tourist arrivals during the first eight months of 1995 was 281,304 a 5% increase over the arrivals (267,189) in the same period of 1994. Available statistics show that tourist arrivals from all major regions have increased except East Asia and the Middle-east.

In the context of the Tourism Master Plan, the following work has been undertaken.

- Resort development have been undertaken in Kataragama, Bandarawela, Nuwara-Eliya, Bentota, Polonnaruwa and Kalutara during 1995.
- A new tourist resort has been opened in Bambarakele in April 1995.
- Promotional activities have been undertaken in traditional markets through participation in trade fairs, cultural events and workshops during 1995.

The Ceylon Tourist Hotel School Complex is scheduled to commence before the end of 1995.

TABLE 3 (C) I

Tourist Arrivals by Major Regions

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Major Region	Jan. - Aug.		
	1994	1995	% Chg.
North America	10.4	10.7	2.8
Latin America & the Caribbean	0.3	0.4	22.8
Western Europe	166.5	172.1	3.4
Eastern Europe	2.7	3.0	8.5
Africa	0.4	0.5	16.3
Middle East	2.7	2.4	-8.0
East Asia	36.5	35.9	-1.6
South Asia	40.2	49.2	22.4
Australia	7.1	6.6	-6.4
Total	267.1	281.3	5.3

Source : Sri Lanka Tourist Board.

CHAPTER 4

PRIVATE INVESTMENT AND PUBLIC ENTERPRISE REFORM

1. Introduction

An important component of the Government's economic development strategy is its commitment to work in partnership with the private sector which has been assigned the role of the principal engine of growth. Accordingly, encouraging private investment, effecting necessary reforms in the public enterprises, and providing appropriate incentives and supportive policy framework have been high on the agenda of the strategy.

2. Development Goals and Policies

The following extracts from the several Policy Statements of the Government relating to the policy on private investment and public enterprise reform are presented in order to place the subject in its proper context.

- (a) "..... as the resource requirement for the provision of adequate infrastructure are so overwhelmingly large, a significant portion of the infrastructure investment effort will have to be undertaken by the private sector." (September 13, 1994).
- (b) "Private sector infrastructure investment would occur under arrangements such as BOT (Build Operate and Transfer) and BOO (Build Operate and Own) which would be implemented within an evaluation and regulatory framework that would generate transparency and accountability" (September 13, 1994).
- (c) "The Government will embark upon a major programme of selective and carefully planned reforms of public sector enterprises in 1995. ... The private sector would be invited to participate in the ownership and management of public enterprises while the Government retains part ownership in such a manner as to ensure the interests of the nation and employees are safeguarded, while guaranteeing condition of good management and profitability to the private sector bodies which take over the ventures. (January 6, 1995).
- (d) "Privatisation will not only save and augment public resources for essential public investments but will also enhance investment, employment and the quality of service in the privatized sectors and in the economy as a whole". (January 6, 1995).

3. Institutional Developments

A number of state agencies such as the Board of Investment (BOI), and the Secretariat for Infrastructure Development and Investment (SIDI), and the Securities and Exchange Commission (SEC) have been engaged in facilitating private investment by the time the present government came into office.

3.1 *Public Enterprises Reform Commission*

"The Government took the important step of appointing a Presidential Task Force for Public Enterprises Reform in March this year pending the establishment of a Public Enterprises Reform Commission to assist the Government in a variety of functions relating to the reform of the State owned Enterprises. The legislative provisions for the establishment of PERC has been gazetted and is due to be presented in Parliament."

Among the main objectives of the PERC are the enhancement of the efficiency of Government investments, strengthening market competition, developing the capital markets by attracting long-term private savings and foreign investment, broad basing the ownership of public enterprises and helping the fiscal operations of the Government by mobilizing resources for repayment of public debt and relieving pressures on government capital investment with particular emphasis on large scale infrastructure development.

Functions of the PERC include—

- (a) the sale or lease of government property/assets, partially or wholly ;
- (b) the sale of government shares in companies, partially or wholly ;
- (c) opening selected sectors to private participation and competition ;
- (d) partnership between the public and private sector by the sale of a portion of shares ;
- (e) Management, technical expertise or marketing agreements ;
- (f) Direct private sector investments in areas such as infrastructure.

The immediate task before the Commission in 1995 has been identified under five broad categories :

- (a) Opening up Government monopolies to fair competition ;
- (b) Complete the outstanding reforms in respect of a number of state owned Enterprises ;
- (c) Sale of all or part of government shares in a number of companies ;
- (d) Sale or lease of government land and properties ;
- (e) Strategic alliances in the public utilities/infrastructure/services sector.

3.2 *Board of Investment*

The main functions of the Board of Investment are to facilitate the flow of foreign investment into the country through simplifying approval procedures under 'the one-stop-shop' concept and to ensure that the necessary infrastructure and the regulatory framework are in place. During the period of office of the present government steps were taken to strengthen this institution and in September 1995 the SIDI was merged with the BOI for better co ordination of functions in line with the pledge given in the first policy statement. SIDI will be developed as a specialist consultancy organisation to assist the several line ministries responsible for infrastructure development in preparation and negotiation of various forms of private and public sector collaboration arrangements, in particular the BOO and BOT schemes.

4. Achievements during the past year .

4.1 Public Enterprise Reform

- (i) Sale of 51 percent of the issued share capital of Colombo Gas Company to the Shell International Petroleum Co. Ltd. at a price of US \$ 37 Million has been concluded. Under this sale a further investment of US \$ 40 Million on the construction of a new terminal, pipeline and storage facility for LP gas is planned.
- (ii) Restructuring of Air Lanka Ltd., with a view to forming a strategic alliance with a reputed airline operator who will be offered 40 percent of share. The consultancy for this activity has been awarded to a consortium consisting of Chase Manhattan Bank/ Simat Hellisen and Eichner, USA and Peoples Merchant Bank Ltd.
- (iii) Divestiture of the majority stake of Regional Plantation Companies which have been given 50 year leases of the plantations has commenced with the offer of Bogawantalawa Plantations Ltd., and Kotagala Plantations Ltd., Eight More RPCs are being prepared to be offered for sale through the Colombo Stock Exchange within this year.
- (iv) Restructuring of the Telecommunication Sector will be examined with the assistance of a Financial Adviser of International standards through funds made available by multilateral donor agency. This Consultancy will provide the Government with the information on future needs of the National Telecommunication Industry, the investments needed and the options available to forge strategic alliance with the private sector.
- (v) The proposed strategy for privatization of the Orient Lanka Ltd., a leading duty free operator at the Colombo International Airport consisting of the sale of 60 percent of the shares to an international duty free operator and subsequent divestiture of the remaining shares in the local capital market. Since the first round offers did not reach the reservation price set by the Government, fresh bids are being invited.
- (vi) The Sale of 55% of the issued share capital of Statcon Rubber Co. Ltd. was concluded through the Colombo Stock Exchange and the ownership has been transferred now to the successful investor at a price of Rs. 18 Million.
- (vii) 10 million shares consisting of 40.8% of the stake of Capital Development and Investment Company (CDIC) was also offered through the Colombo Stock Exchange and the offer realised a sum of Rs. 400 Million.

The main activities planned by the PERC are expected to yield an amount exceeding Rs. 13 billion over a period. However in 1995, the government plans to use only about Rs. 4 billion for budgetary purposes.

4.2 Foreign Investment

Since August 1994, Sri Lanka has attracted prestigious international companies to invest in the country bringing in larger investments than in previous years. Since then, the BOI has received 12 applications where the size of each investment was in excess of Rs. 500 million. This is the highest number of large scale investment applications received in any 12 month period.

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The Government has granted a series of general incentives to investors.

1. The corporate tax rate was reduced to 35 percent for the purpose of promoting new investments.
2. Granting tax holidays up to 20 years depending on the volume of investment and employment generation.
3. Duty free importation of machinery, equipment and all other project related materials.
4. *Repatriation of capital profit and dividend without any restrictions*

In addition to the existing package of incentives the BOI offers two other liberal packages to targeted investors. These have the objective of attracting selectively, the 'high tech' and large scale investments.

(a) Companies utilizing advanced technologies, with not less than Rs. 50 million investment, employing over 50 employees will be offered a 5 year tax holiday. The dividends during this period and another year thereafter, will be tax exempt. Exemption from import duty and Turnover Tax on raw materials and consumables during the lifetime of the project will also be granted.

(b) Large development projects are offered tax holidays varying with the size of the investments as follows :

Rs. 500 million	to	Rs. 1,499 million	10 years
Rs. 1,500 million	to	Rs. 2,499 million	12 years
Rs. 2,500 million	to	Rs. 4,999 million	15 years
Rs. 5,000 million and above			20 years

Further concessions are offered to these companies harmonizing different schemes offered by the Inland Revenue and the Board of Investment tax regimes.

The BOI has plans for improving infrastructure facilities in the zones with the following capital grants from the Treasury.

1. Katunayake Investment Promotion Zone—Rs. 40 million
2. Biyagama Investment Promotion Zone—Rs. 40 million
3. Koggala Investment Promotion Zone—Rs. 60 million
4. Kandy Industrial Park—Rs. 115 million
5. Hambantota Industrial Park—Rs. 50 million
6. Malwatte Industrial Park—Rs. 10 million

The total potential employment under these schemes has been estimated to exceed 20 thousand.

TABLE 1

Investments in BOI Projects—(August 1994-September 1995)

	No. of Units	Foreign Investment (Rs. Mn.)	Total Investment (Rs. Mn.)	Employment
(a) Approved	315	11,823	32,367	48,760
(b) Agreements Signed	169	N.A.	14,098	21,647
(c) Commercial Production	87	N.A.	7,634	15,206

TABLE 2

BOI Investments (as at 31.07.95)

(a) Letter of Agreement issued		1,062
(b) Commercial operation		<i>No. of Units</i>
	Katunayake	94
	Biyagama	39
	Koggala	11
	Outside	358
	Total	502
(c) Employment		224,875

TABLE 3

200 Garment Factory Programme—Performance as at 31.07.95

(a) No. of enterprises in Commercial Operation	162
(b) Other	9
Total	171

Source : Board of Investment of Sri Lanka.

PART II

CHAPTER 5

SUSTAINABLE HUMAN DEVELOPMENT : THE SOCIAL SECTOR

Sri Lanka's achievements in developing human capital and completing the demographic transition are impressive and have been the result of past government expenditure policies which gave them high priority. For example, Sri Lanka's social indicators in five critical areas viz, population growth rate, life expectancy, infant mortality, adult literacy rate and female secondary enrollment remain above most of the East Asia countries, though they fall short of the level of the best performers such as Korea and Singapore. On the other hand, recent studies and analysis suggest that the quality of primary and secondary education has declined and the variation among schools and regions needs to be corrected. Undernutrition among young children is a major problem. It needs to be stressed that public sector investments in human resource development are not mere welfare expenditures, but as demonstrated in the east Asian economies, are investments with a high rate of social return.

The data clearly reveal this co-relation between Sri Lanka's human development achievements and expenditures on the social sectors. The available information is tabled below in Table 1.

During the three decades of the 50's, 60's and 70's, Sri Lanka was spending between 8-10% of her GDP and 30-35% of her budget on the social sectors, including a food subsidy. It was these expenditures that underpinned her human development achievements. The declines in educational quality and preventive health care developed during the decade of the 80's when social sector expenditures collapsed to 6% of GDP and 17% of the budget.

This is the inheritance which the government now needs to improve upon and on which a beginning was made in the 1995 budget. The policy objective was to target the food subsidy and Samurdhi expenditures in adequate amounts per family to those most in need - the poorest 1.2 million families-so as to shift resources to the health and education sectors as part of a general rationalization of budgetary expenditure. The data for these sectors, taken together, is given in Table 2.

It will be seen that health and education expenditures have declined from 5-6% of GDP and over 20% of the budget during the 50's and 60's to 4% of GDP and 12% of the government Budget during the decade of the 80's. While some improvement did occur in the early 1990's the challenge is to move nearer the levels being reached in East Asia, where Malaysia's and Thailand's health and education expenditures alone are in the range of 9-10% of GDP. It is evident that the budgetary allocations for 1995 mark a beginning in making more resources available to health and education. As compared with the period 1990-94 the 1995 allocations are nearly half a percent more in relation to GDP and over 1 percent more in relation to budgetary expenditure.

Table 1

AVERAGE EXPENDITURE ON HEALTH, EDUCATION AND OTHER SOCIAL SERVICES 1951-1995

	GDP		TGE		HEALTH		EDUCATION		OTHER SERVICES (3)		FOOD SUBSIDY (1)		TOTAL			
	Rs. Mn.	% of GDP	Rs. Mn.	% of TGE	Rs. Mn.	% of GDP	Rs. Mn.	% of TGE	Rs. Mn.	% of GDP	Rs. Mn.	% of TGE	Rs. Mn.	% of GDP	Rs. Mn.	% of TGE
1951-59	5,024	1.260	100	7.99	162	3.19	12.80	23	0.46	1.84	1.11	2.25	8.77	396	7.87	31.39
1960-69	8,582	2,345	166	7.13	348	4.08	14.87	44	0.53	1.91	265	3.15	11.46	823	9.59	35.37
1970-79	27,337	8,650	395	1.49	807	3.20	10.91	126	0.43	1.43	1,155	3.93	-13.19	2,482	9.08	30.56
1980-89	153,856	54,771	2,246	1.41	3,999	2.58	7.21	905	0.53	1.48	2,256	1.57	4.30	9,406	6.11	17.17
1990-94	438,939	155,218	6,352	1.45	13,030	2.96	8.31	1,589	0.37	1.02	9,426	2.24	6.26	30,396	6.92	19.58
1995	668,000	237,404	11,158	1.67	20,873	3.12	8.80	2,701	0.40	1.14	9,336	1.40	3.93	44,068	6.60	18.56

Table 2

	GDP		TGE		HEALTH & EDUCATION	
	Rs. Mn.	% of GDP	Rs. Mn.	% of TGE	Rs. Mn.	% of TGE
1951-59	5,024	1.260	262	5.22	20.80	20.80
1960-69	8,582	2,345	514	5.99	21.91	21.91
1970-79	27,337	8,650	1,201	4.39	13.89	13.89
1980-89	153,856	54,771	6,245	4.06	11.40	11.40
1990-94	438,939	155,218	19,382	4.41	12.37	12.37
1995	668,000	237,404	32,031	4.79	13.50	13.50

source : Budget Estimates, Department of National Planning, Central Bank Annual Reports & Dept. of Census & Statistics.

- Note : (1) Includes Mid - Day Meal and Janasaviya Programmes, and in 1995 the Samurdhi Programme.
 (2) Estimated Figures excludes expenditure of North - East Province.
 (3) Other Services : Includes Youth Affairs, Labour, Social Services and Cultural Affairs.
 (4) TGE : Total Government Expenditure.
 (5) 1995 expenditure figures are Govt. allocations excluding Provincial Council's own expenditures.

The challenge Sri Lanka faces is to maintain and further advance her high level of human resource development and complement enhanced resource allocations with quality improvement. In particular, actions are required to improve the nutritional status of children and in the area of preventive health.

A Education

1. Introduction

Sri Lanka has been investing a significant part of its resources in the development of educational facilities since independence in 1948. Adult literacy rates (86.6 percent in 1991) and the educational status of the population reflect the cumulative effect of these investments in education. Today, government has a near monopoly on the education services provided at primary, secondary and tertiary levels and education is provided free of charge, throughout the public education system. Public schools and private non-fee levying schools are allowed to charge only a very small facilities fee which is set by the Ministry of Education and Higher Education. Financial constraints have been further reduced through the provision of subsidies on transport *i.e.* bus and train fares, scholarships for poor children, free text books and free material for one school uniform for each child. Any child who wishes to be enrolled must be provided with a place in a government school as long as he/she satisfies the entry-age requirement. The islandwide network of schools is also easily accessible due to good roads and transport.

The financial allocation for the education sector for 1995 shows an increase on 1994 both as a percentage of GDP and as a percentage of the government budget. However in 1996 there will be a decline. (Table 3)

TABLE 3

Provision for Education

	1994 <i>Rs. Mn.</i>	1995 <i>Rs. Mn.</i>	1996 <i>Rs. Mn.</i>
Financial allocations *	16,658	20,873	22,119
Percentage of GDP	2.89	3.16	2.94
Percentage of Government Expenditure	8.6	8.8	8.12

* Does not include provincial expenditure on education out of own funds.

2. Improving the Quality of Education

2.1 National Schools & Scholarships

About 37 schools have been upgraded to National Schools increasing the total number to 195 by August, 1995. This will ensure access to a quality secondary education to students in all parts of the country.

The number of year 5 scholarships offered to students has increased from 7,500 in 1994 to 10,000 in 1995. It is expected that this number will increase to 15,000 in 1996. The content of the year 5 scholarship examination has also changed. Only mathematical and language skills of the students had been tested hitherto at this examination and this was found to be detrimental to the educational development of the primary level students. The revised examination will test the general knowledge of the student covering the total curriculum area at primary level, starting in December, 1995.

2.2 Curriculum Reform

The National Institute of Education is in the process of revising school curricula with assistance provided by the Asian Development Bank. A new mathematics curriculum has been introduced suited to the needs of Advanced Level students who are in the Arts and Commerce streams. A new subject "Business Statistics" has also been introduced into the Advanced Level Commerce subject stream. The necessary text books, teaching manuals, learning guides and other audio-visual aides relevant to these new subjects are also being developed.

With a view to providing opportunities for students to learn new technologies, 12 computer centres have been opened in schools in the rural areas during this period. Students who are awaiting their GCE 'O' Level and 'A' Level results participate in the training courses conducted in these centres. The establishment of 30 more such centres has been planned for 1996.

2.3 Teacher Training

Pre service teacher training intake to the Colleges of Education has been increased by 436. Teachers' Colleges have also admitted 869 more teachers for in-service training in 1995. The number of English language teachers admitted to teacher training institutions has increased by 414 (Table 4).

TABLE 4

English Language Teacher Trainee Admissions by Category

<i>Category of Training & Institution</i>	<i>Number admitted 1994</i>	<i>Number admitted 1995</i>	<i>Increase</i>
1. In-service training in Teacher's Colleges	452	573	121
2. In-service training in other institutions (National Institute of Education, Open University)	541	624	83
3. Pre-service training in Colleges of Education	207	230	23
4. Pre-service training in District English Language Improvement Centres	1,813	2,000	187
Total	3,013	3,427	414

3. Widening Educational Opportunities

3.4 *Non-school-going Children*

Eight Resource Centers, one in each Province, are now under construction. These centers will conduct literacy classes for non-school going children aged 5-14 years, act at reading centers and open education centers for non-formal education and assist pre-school education through conducting training programmes for pre-school teachers, etc.

3.5 *Tertiary Education : New Universities & Hostel Facilities*

Three new universities *i.e.* the South Eastern University at Oluvil, the Rajarata University in Anuradhapura and the Sabaragamuwa University in Ratnapura have been set up. The existing universities have also increased their intake by 534 in the 1995/96 academic year over the 1994/95 academic year.

At the beginning of 1994 only 37 percent of university students (11,888 students) had been provided with hostel facilities. However the government has embarked on a major hostel construction programme to provide accommodation to an additional 5,000 students by the end of 1996. By the end of August 1995, hostels had been completed in the Colombo University with the capacity to accommodate 400 students ; two hostels in the Ruhuna University with the capacity of 225 each ; and one in the Kelaniya University with the capacity of 150 students. Once this ongoing hostel programme is completed by the end of 1996, 53 percent of the university students can be provided with hostel accommodation.

4. Improving School Infrastructure

A considerable improvement has been made in school infrastructure in terms of new/upgraded buildings and new furniture (Table 5). Major building activity covered 2,148 classrooms, 145 laboratories, 1,086 latrines and urinals, 248 water supplies. The school furniture acquired includes 144,240 children's chairs, 144,149 children's desks, 10,505 teachers' chairs, 11,460 teachers tables, 7,599 blackboards.

5. Improving Educational Administration

Restructuring of the provincial education administration system has started with a view to making it more efficient. Administrative and financial responsibilities which were under the Divisional offices have now been vested with zonal offices. A zonal office now services a number of Divisions and about 50 percent of the restructuring programme has been completed.

The Sri Lanka Teachers' Service was established in October 1994 on par with all other All Island Services. The main objective of the establishment of the Teachers' Service was to improve the quality of education in the country by having a contented set of teachers. With the creation of the Teachers' Service, promotional prospects have improved and large-scale salary increases have been given to teachers. An additional amount of Rs. 2.8 billion has been provided in the budget for 1995 to meet the increased teachers' salaries in the new service.

Principals and Deputy Principals of schools with Advanced Level classes and some officers in the Sri Lanka Education Administrative Service have been trained in school management. Under this programme 560 Principals and 560 Deputy Principals of schools with all three streams (Science, Arts and Commerce at Advanced Level) and 1,280 Principals and 1,280 Deputy Principals of schools with Arts and Commerce streams at Advanced Level have been trained. 529 officers in the Sri Lanka Education Administrative Service have also been trained under this programme.

Under the non-formal education programme of the Ministry of Education & Higher Education, financial incentives have been provided to the instructors who are attached to the 1,400 school units, and the 400 literacy and skill training centres. The monthly allowance per instructor in a school Technical Unit was Rs. 600 in 1994, which has been increased to Rs. 1,440 per instructor in 1995 (a more than 100 percent increase). In the case of instructors in the literacy and skill training centers, the allowance per instructor has increased from Rs. 900 in 1994 to Rs.1,440 in 1995 showing a 56 percent increase. With the increase of the allowance for instructors under the non-formal education programme, it is expected that these programmes will be able to recruit and retain good quality instructors and thereby improve the quality of training provided.

TABLE 5

New Civil Works & School Furniture by Province, August, 1994 - August, 1995

<i>Item</i>	<i>WP</i>	<i>SABP</i>	<i>CP</i>	<i>NCP</i>	<i>NWP</i>	<i>UVA</i>	<i>SP</i>	<i>Total</i>
<i>Civil Works (Nos.)</i>								
1. Class rooms	154	172	91	353	369	312	97	2,118
2. Multi Purpose rooms	35	39	50	3	11	59	-	197
3. Laboratories	9	11	8	26	1	16	38	115
4. Teachers' rooms	-	-	11	16	12	-	1	16
5. Latrines & Urinals	258	257	75	148	93	223	32	1,086
6. Side Walls & Others	-	36	7	10	11	3	2	69
7. Education Offices	-	3	-	2	3	7	3	20
8. Water supplies	68	78	15	11	10	25	11	218
<i>School Furniture (Nos.)</i>								
1. Infant Sets	9,509	12,888	28,650	6,251	29,218	11,653	13,844	112,046
2. Childrens' Chairs	22,978	18,920	28,856	16,129	33,255	9,818	11,286	144,240
3. Childrens' Desks	23,102	19,426	28,504	16,571	35,818	7,356	13,126	111,149
4. Teachers' Chairs	5,495	855	1,190	802	1,286	577	-	10,505
5. Teachers' Tables	5,215	213	2,450	1,390	1,291	868	-	11,160
6. Blackboards	4,821	278	1,815	213	105	67	-	7,599
7. Steel Cupd. & Cabinets	539	72	580	36	30	-	-	1,257
8. Other Furniture	167	-	-	600	-	-	360	1,127

B Health

1. Preventive Health Care

1.1 Malaria, STD, and Waterborne Diseases

While in the past more emphasis was given to curative medicine rather than preventive or promotive medicine, the PA government has changed the health investment pattern in favour of preventive health. As a result, the control of several communicable diseases has improved. e.g. Malaria, sexually transmitted diseases and waterborne diseases. The introduction of 'mobile clinics' to control Malaria and their operation in high risk areas has reduced Malaria morbidity by 15 percent and the incidence of the Plasmodium Falciparum type (which causes cerebral Malaria) has dropped by 54 percent.

Several programmes to increase the awareness of STD/HIV/AIDS have been carried out and a medium term development plan worked out to control the spread of these diseases.

1.2 Rabies

Although 'Human Rabies' still remains a major health problem, over 381,000 domestic dogs were vaccinated and 108,260 dogs were eliminated during this period. Seminars are also being planned to increase community support, as a new strategy to control Human Rabies.

1.3 Child Support Services

The coverage of infants and children by immunisation has been successfully maintained at over 85 percent and Sri Lanka is now on the verge of eradicating Poliomyelitis. National Immunization Days (NID) instituted in November and December will be continued for 3 years with the objective of making Sri Lanka Polio-free.

In addition, Rs. 180 mn. was spent on Thripasha Programme to cover 1 mn. beneficiaries including pregnant women, lactating women and children below 5 years. The distribution of Thripasha was done through Maternal and Child Health Clinics and social service organizations. 'The Baby Friendly Hospital Initiative Programme' has also been implemented to promote breast feeding and 5 more hospitals were declared as Baby Friendly Hospitals during this period.

A number of multi-sectoral programmes, which are coordinated at the national level, commenced during this period *i. e.* the implementation of the Plan of Action for Children, National STD/HIV/AIDS Control Programme and the National Nutrition Programme. Funds under the Plan of Action for Children were used to provide essential equipment to improve conditions at delivery and provide new/rehabilitated gramodaya health centres in remote areas.

2. Health Manpower : Recruitment and Training

In the area of health manpower, 886 new medical officers and 2449 other categories have been recruited and a number of in-service training programmes for Medical Officers, Nurses and other Para-medical personnel have been conducted. Training of estate health staff has also commenced in 1995 as part of the programme to integrate the estate health sector into the general health services.

The State Pharmaceutical Corporation provides medical supplies to the state health sector and a number of seminars and workshops have been organized to maintain drug quality standards and distribution efficiency. A number of agents are being trained to educate medical professionals on pharmaceuticals, both locally manufactured and imported, their effectiveness and prices. A series of discussions with medical officers was conducted over the electronic media, known as 'Suwa Hamuwa' and 'Suwa Piyasa' to educate people on certain diseases and the usage of drugs. School programmes were also conducted for the same purpose. A 39% increase in the SPC sales has been observed in 1995. Furthermore, sales outlets have been provided in almost every district and training for pharmacists attached to 'Osusalas' is being organized.

3. Health Planning

Significant progress was achieved in improving the management, development and planning activities of the health services during the years 1994/1995. The ten year Master Plan (1995-2004), known as the Perspective Plan has been developed. A 'Health Manpower Plan' (1996-2005) has also been prepared to deal with recurrent health manpower shortages, particularly of paramedical staff.

Plans have been made to computerize the health data of the central and provincial Ministries of Health with a view to further develop the National Health Information System with the assistance of the World Health Organization. A regional level health information system has been developed with the assistance of the Asian Development Bank.

4. Health Infrastructure Development

A substantial proportion of health resources flowed into the development of small health institutions either through foreign funded projects or the Medium Term Investment Programme. Also, more emphasis was placed on rehabilitation of existing buildings and water and sanitation facilities. A number of hospitals have been upgraded during the review period. *e.g.* four district hospitals to base hospitals, 12 peripheral units to district hospitals and one Central Dispensary and Maternity home to a rural hospital. During this period the Orthopaedic, ENT and Paediatric Surgical wards, Occult Science Unit and Microbiology unit have also been reopened at Sri Jayawardenapura hospital.

Rs. 1,400 mn. have been spent on medical and other supplies in 1994; this was increased to Rs. 2000 mn. in 1995. In addition, various medical equipment valued at Rs. 210 mn. and 84 ambulances have also been distributed to provincial hospitals during this period. An Ortery Observation Machine has been installed at Sri Jayawardenapura Hospital. Orders have been placed for 3 scanners, 16 ultra sound scanners, 3 vitechrom machines, 03 cobolt machines and 04 surgical lasers in order to render a satisfactory service to the public.

C Poverty Alleviation, Labour, Social Services

1. The Samurdhi Programme

1.1 Introduction

Samurdhi has been designed as the umbrella programme to address poverty — one of the main socio economic problems in Sri Lanka. This new concept takes into account the experience gained both within the country and internationally. The Samurdhi Programme emphasizes the participation of beneficiaries by harnessing their innate productive enterprise, and the involvement of youth. Unlike the programmes which preceded it, Samurdhi is a country - wide programme, which seeks to establish productive links with all other development programmes and projects particularly in the rural areas.

1.2 Goals and Policies

The basic policy on poverty alleviation and the Samurdhi Programme was outlined by H.E. the President in her Policy Statement of 6 January, 1995 as follows :

“The efforts to generate jobs and to enhance human development among the poor through investments in health, nutrition, education and vocational training, will be supplemented by the Samurdhi Programme which seeks to alleviate poverty on a sustainable basis. This Programme is based upon a distillation of available experience building on the best practice in and outside the country. In successful poverty alleviation programmes, the poor organize themselves in support groups with social mobilisation leading to enhanced savings, the development of viable projects, and hence to a greater sense of self-reliance. Also important is the participation of NGOs in this process. The Samurdhi Programme comprises the following elements :

“ * The Programme will draw on the commitment and motivation of social mobilizers chosen locally from among educated youth, the Samurdhi Niyamakas (SN), who will start by carrying out surveys in their areas to identify the Samurdhi beneficiaries.

*The target of the Samurdhi Movement will be the 30 to 35% of the population (1,000,000 to 1,200,000 families) at the bottom of the income distribution scale, of which 700,000 to 850,000 live below the poverty line. Their income is proposed to be topped up to an adequate level — up to Rs. 1,500 — Rs. 2,000 per month — on an islandwide basis.

*The poorest households are expected to divide by choice into pure savers and groups of potential borrowers/entrepreneurs. For savers, the savings will accumulate in a personal savings bank account with interest. The principal sum will become available at the end of five years or whenever a poor household is able to generate an income of Rs. 2,000 per month (including other transfers) for an uninterrupted period of 6 months.

*Potential entrepreneurs will be organized in voluntary groups with their savings accumulating in each group's bank account. Groups will save an additional amount, compared to pure savers, as determined by the groups themselves.”

The main goals of the Samurdhi Programme are as follows :

- (i) Alleviating Poverty through improvement of the presently marginalized poverty groups according to accepted principles of democracy, participation, equity, and rural community development.
- (ii) Strengthening of the rural production base through appropriate interventions in rural agriculture, fisheries, small industries and service activities.
- (iii) Promoting human resource development, particularly aimed at the youth.
- (iv) Developing an alternative banking process based on thrift, savings mobilization and credit to assist the rural population who have not so far benefitted from existing services.

1.3 *Supportive State Action and Performance*

The programme commenced its activities in June, 1995. The following are the main tasks so far undertaken.

1.3.1 *Samurdhi Balakaya*

A "Samurdhi Balakaya" has been set up in each Grama Niladhari Division (GND) to identify and implement suitable projects for the development of the Division based on available resources in the area and social structure. At present 23,000 Samurdhi Niyamakas are involved in development activities throughout the island. They are advised by a committee which consists of respected people at village level such as teachers and clergy.

1.3.2 *Savings*

All Samurdhi beneficiaries are encouraged to save a part of the income supplement they receive i.e. Rs. 200 per month by the poorest (persons who receive Rs. 1,000 per month from the programme) and Rs. 100 per month by the rest (persons who receive Rs. 500 per month). 1.5 million saving pass books have already been distributed among beneficiaries to fulfil this task.

1.3.3 *Training*

23,000 "Samurdhi Niyamaka" and 1,300 Samurdhi Managers have been trained to conduct the Family Profile Survey (FPS) to choose eligible beneficiaries and subsequently to develop appropriate self employment projects for families participating in the programme.

1.3.4 *Development Projects*

Small scale development projects such as irrigation, water supply, road and building construction are undertaken by Samurdhi recipients. By mid October, 1995, 10,143 such projects have been established. Each project receives Rs. 10,000 from the Government. It is planned to set up large scale projects in future costing Rs. 1,00,000 - 300,000 a project.

All Divisional Secretaries have been instructed to identify at least 5 families in a GN Division to whom funds can be provided to pursue successful self employment projects. Suitable families are being identified with the help of Samurdhi Balakayas and Samurdhi Niyamakas.

1.3.5 *Welfare Benefits*

Recipient families have been selected and income supplements are being distributed at two levels (Rs. 1,000 and Rs. 500) so that the total monthly income of the deserving poorest families will reach Rs. 1,500 per month. The programme also provides Rs. 100 per month for single member families and Rs. 200 per month for two member families. As of October, 1995, 1,201,108 families have been given Samurdhi benefits based on the FPS results. Government spends Rs. 487 million per month for this purpose.

2. **Labour**

2.1 **Development Goals and Objectives**

The main objective of the labour policy is to maintain industrial peace through a better relationship between employer and employee which will contribute to national development and to provide a skilled disciplined workforce through demand-driven vocational education and training.

The National Workers' Charter will ensure freedom of association; the right to organise and collective bargaining will be further reinforced ; and the conditions of employment will be strengthened to prevent exploitation of labour. This Charter provides for the compulsory recognition of trade unions by the employers so that employers are able to negotiate through them on the matters pertaining to their members. Anti-union discrimination by employers will be an unfair labour practice. Employers who close down their establishments will be required to fulfil their obligations regarding earned wages and other statutory liabilities. The recruitment of workers as apprentices and trainees for regular employment is prohibited. The issue of letters of appointment to employees stating their wages, terms and conditions will be compulsory.

2.2 **Sectoral Performance**

2.2.1 *Social Security-Employees' Provident Fund (EPF) and Employees' Trust Fund (ETF)*

Contributions flowing into the above Funds have increased considerably as a result of vigorous enforcement. Contributions and surcharges received by the EPF were Rs. 8,564 mn. in the period of Aug, 1994 to Sep, 1995. (an increase of 19 percent). Monthly contribution to the ETF, increased from Rs. 100 mn. in 1994 to Rs. 130 mn. in 1995. The number of applications received per month has increased from 5,895 in August, 1994 to 7,423 in September, 1995. Two new branch offices were opened at Kandy and Matara to cater to the needs of the contributors in the areas concerned.

2.2.2 *Training and Welfare facilities for Migrant Workers*

The Sri Lanka Bureau of Foreign Employment (SLBFE) has played an active role in the field of foreign employment during the year concerned. Agreements were signed with Korea for jobs for Sri Lankans and with Japan to provide training.

A recruitment fee is charged from migrants ranging from Rs. 2,000—10,000, depending on their earnings from foreign employment. This money is utilized for the provision of welfare facilities, training, an insurance scheme, etc. The maximum benefit of the insurance scheme is Rs. 125,000. This scheme has been extended to the family members of the migrant workers providing them with coverage for medical treatment and education. During the period September 1994 to March, 1995, 543 persons who were in difficulties were brought down at the expense of Government and the cost incurred was Rs. 9.2 mn. The SLBFE examined a number of complaints from migrant workers and Rs. 13 mn. was received as compensation from the foreign employers and the parties involved.

SLBFE commenced a programme to train domestic workers for foreign jobs. The fields of training were Juki Machine Operating, English Language and Domestic Service. In order to facilitate this training programme and to expedite the processing of foreign employment applications, the SLBFE has also established 12 district offices. Pre-employment training by SLBFE (Table 6) training is free of charge. It will be made compulsory by the end of this year.

TABLE 6

SLBFE Training of Workers for Foreign Employment

<i>Training Course</i>	<i>1994</i>	<i>Aug. 1994</i>	<i>Sept. 1995</i>
<i>Domestic workers for</i>			
i. Middle East	1,093		2,204
ii. Singapore	—		680
Juki Machine Operators	175		125
English Language	459		168

2.2.3 Technical and Vocational Training

Under the vocational training programme of the Department of Labour, about 6150 school leavers were trained during this period. In order to develop and strengthen the vocational training programme, the Vocational Training Authority was established in August, 1995. The functions of the two divisions of the Department of Labour, *i.e.* Manpower Division and Foremen Training Institute were transferred to this Authority.

In the field of technical training, two new affiliated technical units were opened at Dehiattakandiya and Matale totalling 33 units. Computer training, Fibre Glass, and other courses suitable to their respective regions were introduced in 1995. The National Technical Teacher Training College was renamed the National Technical Education Institute and an Advisory Committee appointed to improve the curriculum development and human resources development activities of the Institute. The number of technical teachers trained has increased from 122 in 1994 to 264 in 1995. The total number of students in training has also increased from 18,141 in 1994 to 18,695 in 1995, excluding the Colleges in Jaffna and Batticaloa.

Up to now no allowance had been paid to students in the Technical Colleges, while a monthly allowance was paid to students in the National Apprentice & Industrial Training Authority and a daily allowance to students in mobile training centres. In order to eliminate this anomaly the Cabinet has decided to pay an allowance of Rs. 20 per day to full-time students in the Technical Colleges from 1996.

3. Social Services

3.1 Introduction

The government works in partnership with non-governmental organisations (NGO) for the upliftment of the living conditions of poor and vulnerable groups in the society through a variety of programmes.

3.2 Programmes related to Disabled persons

Under the community-based rehabilitation programme for those with disabilities, the Ministry has allocated Rs. 7.9 m. to 55 divisions for the identification of disabled persons, volunteer training and social mobilization. 176,337 persons with disabilities have been identified. Rs. 4.4 million was spent on training of heads of Departments, Management Steering Committee training and core-group training.

Under the relief services, Rs. 7.6 million was spent for the handicapped ; 27 crutches, 57 wheel chairs, 131 hearing aids and 2,167 spectacles were given. Out of 573 persons with disabilities who underwent vocational training, 209 were provided with the necessary equipment for self-employment.

Draft legislation (formulated in terms of U. N. Charter) to protect the rights of about 900,000 persons with disabilities, has been submitted for Cabinet approval. To co-ordinate the activities for disabled persons Cabinet approval was obtained to set up a National Council and a Secretariat. The International Day for the Disabled was commemorated on 3rd December, 1995.

3.3 Rehabilitation of Women in Difficult Circumstances

200 women in the Gangodawila Detention Home are being rehabilitated under a programme organised by the Sociology Department of the University of Colombo. 325 public assistance recipients are being provided with self employment opportunities.

3.4 Disaster Management

Cabinet has approved the establishment of a Disaster Management Secretariat as a national co-ordinating centre to respond to emergencies arising from natural and other disasters. Rs. 150 million was provided as assistance for victims of floods, earthslips, cyclones and attacks from wild elephants. 52,923 houses were rebuilt. The government in collaboration with World Food Programme (WFP) has provided 7,528 metric tons of rice, 376 metric tons sugar, 241 M.T. of dhal and 627366 bottles of coconut oil free of charge to 52,278 displaced persons in Puttalam, Anuradhapura, Matale, Kurunegala, Colombo and Polonnaruwa districts.

3.5 Programme for Aging Population

A national policy for the aging population has been prepared and approved by Cabinet. Several religious, cultural and educational programmes were implemented to commemorate Elders Day, which fell on 1st of October. A new stamp was issued. A special identity card for the aged over 70 years is being issued. Two issues of the journal "Vedihitiyo" have been released. Two Homes have been constructed in Katuwana and Kataragama costing Rs. 4.0 million.

3.6 Social Insurance Scheme

The Bill to establish a Social Security Board for the management of the social security and pensions scheme for-self employed workers has been approved by Cabinet.

3.7 Maintenance Allowance

During the last eight years, a per capita monthly allowance of Rs. 100/- and Rs. 120/- was paid to non governmental organisations for the maintenance of elders, children and the disabled. This allowance has now been increased to Rs. 300/-.

3.8 Child Care Services

Six awareness programmes were launched to protect children from child abuse and prostitution. Rs. 7.23 million was spent for the rehabilitation and renovation of the Children's Homes, Remand Homes and Certified Schools. Some street children are rehabilitated in a day care programme which is functioning in Colombo at a cost of Rs. 34,750; another 100 are provided night shelters and education.

153 children were extracted from child labour situations as a result of public awareness programmes. Under the sponsorship programme a sum of Rs. 200/- is paid to very poor families to support a child monthly; there are 508 beneficiaries of this programme at present. Rs. 7.2 million worth of equipment was obtained under the KOICA grant for the State Receiving Houses in the North-Western and Sabaragamuwa provinces.

3.9 Social Work Education

Rs. 8.0 million was allocated to National Institute of Social Development to provide training in social work and social development. 43 students have completed the two year Diploma in Social Work in 1995 and 44 students have finished their field work training. A further 35 students are following a child development course. A programme for the translation of social work literature has been started to support the training programme of the Institute.

3.10 Non Government Organizations

Cabinet approval has been given to set up an NGO Secretariat to act as a focal point and clearing house for information on NGO programmes. The Voluntary Social Services Organization Act, No. 31 of 1980 was amended to enable the Minister to appoint an Interim Board of Management to take over the administration of any voluntary Social Service Organisation against which a Board of Inquiry reports the existence of any evidence of fraud or misappropriation.

D Human Settlements

1. Housing Development

1.1 Objectives and Policy

The Government's involvement in housing development is confined to two distinct approaches. Firstly, extending assistance to low income families to build new houses or to

upgrade their own houses based on the "enabling approach" and secondly, to strengthen the housing finance system through which both Public and private sector financial institutions are able to operate as viable lending institutions for housing development.

The main objective of housing sector development is the realization of the dream of providing a decent home for each family with basic public utilities. Facilitating the shelter development process by removing various obstacles and providing assistance to specific target groups to meet their shelter needs are the major thrusts of the housing intervention strategy. Housing development programme has been designed to cater to families living in urban, rural and estate sectors and also to those who are in war affected areas. Further, measures will be taken to remove constraints on house building such as high cost of building materials, high interest rates on housing loans, and high cost of buildable land so that housing construction by both individuals and private sector developers will be facilitated.

1.2 *Progress and Future Prospects*

The National Housing Development Authority (NHDA) the major implementing agency of housing development programme has continued the implementation of a number of housing development programmes during 1995. These are the 100 Houses per Electorate Programme, Urban Housing Programme (UHP), Rural Housing Programme (RHP), Estate Housing Programme (EHP), Disaster Housing Programme (DHP) during 1995. The total estimated outlay for these programmes is Rs. 2,015 million and the expected number of families to be benefitted is 55,313. In addition, 11,153 needy families were benefitted from the provision of building materials received under Japanese grant aid during 1995.

1.3 *The Main Programmes*

Details of the main housing programmes are given below-

1.3.1. *100 Houses per Electorate Programme*

The 100 Houses per Electorate Programme which commenced in January 1995 is being implemented islandwide except Jaffna, Kilinochchi, Mannar and Mullaitivu districts. Under this programme, the construction of 1,500 housing units already commenced. The NHDA will continue the work on 13,500 housing units under the same programme in 1996.

1.3.2. *GI Roofing Sheets for House Building*

The distribution of in-kind assistance to needy families to build houses under JICA grant aid has continued. During the period under review, 2,946 families those who completed the construction upto roof level, received GI roofing sheets. Under Phase I of this grant aid programme 6,345 families have benefitted while it is expected to reach out to another 11,155 families under Phase II.

1.3.3. *Coast-line Relocation Programme*

Construction of 192 housing units at a total estimated cost of Rs. 25 million has been commenced in Attidiya for the purpose of relocating shanty dwellers living on the coastal belt. By September 1995, construction was completed in 95 housing units.

1.3.4 Estate Housing Programme

730 estate families in Nuwara Eliya, Badulla and Ratnapura districts have already been identified to receive housing assistance in the form of building materials, buildable land, and loan assistance. Provision of basic public utilities such as drinking water, sanitation, surface drainage etc. to these settlements has also been planned. In addition 374 families were provided with housing loans from the funds of the Plantation, Housing & Social Welfare Trust.

1.3.5. Low Income Housing Loan Programme

The NHDA continued the housing loan programme aimed at the low income families. The total number of families who received assistance during the period under review, was 3,546, while the value of loans given out was Rs. 21 million.

1.3.6 Lower Middle Income Housing Loan Programme

Provision of housing loans to lower middle and income families has continued. The Housing Development Finance Corporation, and the State Mortgage & Investment Bank were the major financial institutions who administer the lending activities. Under this programme, 3,200 families obtained housing loans to the tune of Rs. 320 million during 1995.

2. Water Supply

2.1 Main Schemes

National Water Supply & Drainage Board continued its activities in the planning, design, construction, rehabilitation and operation & maintenance of water supply facilities. The total expenditure upto September 1995 was Rs. 3,330 Mn. Approximately 60 percent of the investment required for the construction and rehabilitation is obtained in the form of foreign loans.

Construction of the following water supply schemes was completed and commissioned their operations during the period under review.

<i>Name of the Scheme</i>	<i>Total Cost (Rs. Mn.)</i>	<i>No. of People Served</i>
1. Hikkaduwa-Dodanduwa	107	17,200
2. Matara	247	107,000
3. Weligama	170	11,700
4. Tangalla	144	9,300
5. Hambantota	244	33,900
6. Hungama	39	15,300
7. Polonnaruwa-Stage II	23	3,300
8. Thalathu Oya-Stage I	20	3,000
9. Ranna	160	11,500
10. Homagama	40	5,000
11. Divulapitiya	80	6,000
12. Harispattuwa	45	10,000

2.2 *Rural Water Supply & Sanitation*

The Community Water Supply & Sanitation Project is being implemented on a pilot basis in the districts of Ratnapura, Badulla and Matara to study the viability of community participatory approach for the provision of drinking water and sanitation to rural areas. Under this project, the following activities are being implemented.

— Rural Water Supply & Sanitation

219 rural water supply and sanitation projects have been identified and civil works commenced.

—School Water Supply & Sanitation

407 schools have been identified. Out of these 90 schools were provided with water and sanitation facilities.

—Small Town water Supply & Sanitation

17 small towns have been identified and civil works completed in respect of 06 schemes.

3. **Environmental Protection**

3.1 *Introduction*

Government efforts in environmental management have been strengthened over the past several years. These include the creation of administrative structures, legislative measures and capacity enhancement in environment related agencies. The activities undertaken include institution building, manpower training, environmental information, education and awareness creation.

3.2 *Environmental Policy*

In the Policy Statement presented to Parliament on 6 January 1995, the President of Sri Lanka stated that "The Government will foster environmentally friendly and sustainable industrial growth". This underlines the need for well balanced economic development which acknowledges the interdependence of economic growth and environmental management.

3.3 *Activities related to Environmental Protection*

Environmental protection measures have been carefully designed to revive the inherent tradition of our people towards protecting the environment. In this regard, several activities have been implemented to build up a nation-wide commitment to the protection of environment through effective community participation. Decentralisation of environmental functions and environmental promotion activities through education and awareness creation have been given priority during the period under review.

3.3.1 *Decentralising the Environmental Functions*

A programme for the decentralisation of environmental functions was implemented taking the message of environmental protection to the local level. Under the decentralisation programme following activities were completed .

- Delegation of powers and function in respect of pollution control and environmental protection to Local Authorities.
- Setting up of Divisional Environmental Steering Committee in Divisional Secretary's Divisions.
- Training of technical staff attached to Local Authorities on decentralised environmental functions.
- Awareness programme for the elected members of the Local Authorities to explain the Decentralisation programme.
- Preparation of hand-books describing the guidelines for carrying out the decentralised programme of environmental functions.
- Setting up of District Law Enforcement Committee under the chairmanship of District Secretaries, to co-ordinate and monitor the enforcement of Law relating to environmental protection.

3.3.2 *Environmental Promotion Activities*

The following activities have been planned and implemented towards environmental promotion.

- School Environmental programmes including seminars and workshops with participation of school children and youth have been organised.
- Workshop and seminars on Environment have been organised for women with the assistance of women's Bureau.
- Seminars on current environmental issues were also organised for public officials, officials of non-governmental organisations and community leaders.
- Tree planting project in Mahamevuna Uyana which is 750 acres in extent is in progress. A publicity programme has been initiated to get the public assistance in this respect in which members of the public can take part in maintaining a tree in the park by making a nominal contribution.
- Bothalegama village in Mirigama Divisional Secretary's Division is being developed as an environmental model village .

3.3.3 *Implementation of Montreal Protocol*

The objective of the Montreal protocol is to phase out the ozone depleting substances used in the manufacturing of refrigerators and air-conditioners etc. from the earth. Depleting of ozone layer might result in having excessive ultra violet rays in the atmosphere and this will in turn adversely affect the health of the people as well the crop plantations. Action has been taken to phase out the use of ozone depleting substances by year 2004.

CHAPTER 6

ECONOMIC INFRASTRUCTURE

A. Power & Energy, Telecommunication, Ports & Shipping

1. The Overall Policy Framework.

As indicated in the introductory chapter, the state would be entrusted with the task of building infrastructure that is required as the necessary complement to private sector growth, with substantial reinforcement from private investment in infrastructure under BOO/BOT arrangements. Sri Lanka's investments in core infrastructure, (transport, communications, water and power) fell bellow in a typical range for low income countries of 3.5 to 4 percent of GDP for much of the 80s and early 90s. It is well bellow the level of East Asian Countries such as Indonesia (5 to 6 percent), Thailand (6 to 6.5 percent)and the philippines (7 percent) and Malayasia (6 to 8 percent).Meanwhile, the demand for infrastructure services has ballooned dramatically in the post 1989 period placing a severe strain on the present inadequate infrastructure stock, eg. power demand grew by more than 10 percent in 1993 as compared to an annual growth of 7 to 8 percent since 1970 . The policy goal is to remedy the imbalance between the demand and supply of infrastructure services that would be aggravated as the economy begins to grow more rapidly.

2. Power & Energy

2.1 *Policy frame work*

It is expected that the demand for power will grow at 10 percent annually during the next 10 years if annual economic growth is of the order of 6 percent in GDP terms. A higher rate of economic growth of around 8 percent annually will require power demand to grow by 12 percent. The present installed capacity of 1409 Megawatts would then be required to grow within this range. Given the gestation lags, implementation has to be planned well in advance. This involves both public and private investment.

2.2 *Progress in 1995*

2.2.1 *Public Sector*

Construction work of 40 MW diesel power, an extension to the existing diesel power station at Sapugaskanda commenced in 1995 and is expected to be completed in 1996. The implementation of remedial work at Samanalawewa was approved in 1995.

Meanwhile, in order to improve the transmission and distribution network, CEB has continued to implement several projects, namely Second Power Distribution and Transmission Project (Funded by IDA), Transmission System Augmentation and Development Project (funded by OECF) Transmission & Grid Sub - station Development Project (funded by OECF, etc.)

It is also planned to improve the transmission and distribution system of the CEB by constructing high and medium voltage lines and new grid sub-stations with financial assistance from donors, namely OECF and IDA. In order to provide electricity to all the villages, Rural Electrification Phase III would be implemented with ADB assistance.

2.2.2 Private Sector

Several BOO/BOT projects are under negotiation, but the process is time consuming. To quote an aphorism by Gordon Wu, the most prominent sponsor of BOT Project in Asia :“ You spend more time negotiating a deal than building the project plant. ” The negotiation on what may be Sri Lanka's first BOO/BOT project in the power sector for a 51 Megawatt project at Sapugaskanda is nearing completion.

The Cabinet has also issued Letters of Intent for the development of 9 Mini Hydro Plants, 12 MW Wind power plant and 40 MW Broadlands Hydro Power Project by private developers. Proposals have been requested for 2 x150 MW Trincomalee Coal Fired Power Plan and 120/150 MW Combined Cycle Power Plant at Kelanitissa premises.

A proposal to establish a Petroleum refinery cum power plant at Hambantota at an estimated cost of Rs. 100 bn. is being processed. Also, approval has been given to set up a terminal for the storage and distribution of LP Gas has been given to Shell B.V. and negotiations are underway regarding the government participation.

3. Telecommunication Services

3.1 Policy frame Work

According to the JICA Master Plan study on Telecommunication, it is estimated that the demand for telephone lines will increase to around 800,000 by the year 2000. By this time the waiting list which is around 200,000 at present with its increase will be eliminated. A combined effort by both public and private sector is essential to achieve this target. Since this needs heavy investment, private sector also has to play a major role in this regard.

3.2 Progress in 1995

3.2.1 Public Sector

The telecommunications services provided by SLT has shown remarkable progress during the year 1995 by expanding, upgrading and rehabilitating the existing telecommunications network. The major projects are ; the Greater Colombo Network Improvement Project II (Metropolitan), the Development of Telecommunications Network in the Matara District, the Gampaha Telecommunications Development project, the Second Telecommnucations Development projects (assisted by the World Bank and ADB) and the Regional Telecommunications Development project (assisted by OECF) (Japan) With heavy public investment of around Rs. 4 bn. in this sector in 1995 Sri Lanka Telecom had expanded and modernized its service by replacing outdated switching systems and cable networks with modern and very powerful digital switching systems and high quality optical fibe and microwave

cable systems. As a result, the exchange capacity increased by 14 per cent to 268,550 during the first seven months of 1995. Meanwhile, telephone lines provided to the public rose from 181,000 in 1994 to 198,060 as at September, 1995. However, the number of applicants in the waiting list increased by 18 per cent to 219,000 during this period. The total number of new connections given as at September 1995 was about 24,200. In addition, the 3rd Earth Satellite Station which was commissioned in August, 1995 increased the trunk line capacity from 1,400 to 3,400.

3.2.2 Private Sector

Value added services provided by the private sector in the telecommunication sector have become very important by 1995. Mainly 6 value added services namely (a) Radio paging services (b) Cellular Mobile telephone (c) Data communication (d) Payphone (e) Mobile Trunking Radio Network Dispatch Service and (f) Trunk Telecommunications network are presently provided by the private sector.

At present there are 5 companies involved in providing paging services. All companies together have supplied about 7,750 paging machines at the end of September, 1995. Compared to the previous year this is about 23% increase. Most of them are located in Colombo. At present there are 4 companies providing cellular telephone service. The number of cellular telephones has increased of 49% from 29,182 in 1994 to 43,400 at the end September, 1995. There are four companies involved in providing data communication facilities. The total number of subscribers connected to the above network as at September, 1995 was 1,776. Presently three companies provide Pay phone facilities. As at September, 1995 there were about 1,200 pay phones installed. Compared to the previous year the total number of telephones has increased by 33% in 1995.

In order to meet the growing demand a project funded with suppliers's credit, launched originally to provide 150,000 telephone lines increased its scope to 209,000 lines. Seven companies have shown their interest in this project and three companies have already invested in the project.

4. Shipping & Ports

4.1 Policy framework

The overall objective of this sub sector is to develop shipping and ports with a view to ensuring their competitiveness with the latest technology in the context of changes that are taking place in the international shipping scene.

The major thrust of this policy is to consolidate Sri Lanka's natural, strategic position by developing the ports of Colombo and Galle as hub ports, and competitive transshipment centres. The Trincomalee port will be developed for ship related industries, tourism and environmental related activities. The Kankasanturai port will be reactivated and that of Oluvil constructed anew.

These objectives have to be achieved within the existing liberalised environment and internationally competitive background.

4.2 Progress in 1995

4.2.1 Public Sector

1995 witnessed an overall increase of 7.6%, in the cargo handled against the volume in the previous year. Upto the end of September 1995 the total container throughput of TEUs, showed an increase of 48% as against the previous year and it is expected to reach 1 Million TEUs by the end of December 1995. The total revenue upto September 1995 registered an increase of 19.6%.

The third phase of JCT III equipped to handle Post Panamax ships and enhancing the annual throughput of containers by another 350,000 TEUs per annum, was commissioned in February 1995. The fourth berth of JCT will be completed by December, 1995. However, already the yard area has been made available and also 7 transfer cranes along with 3 container cranes have been required.

In addition to the existing computerized network and the proposed expansion of the Electronic Data Interchange, the Software component of the existing system was enhanced with a new yard planning, vessel planning and a yard operating computer input.

Dredging and improving the alignment of the main entrance channel to the port was undertaken to increase the draft to 15 metres in the channel and 14 metres in the inner harbour to enable large ships to enter the port.

Steps have been taken to lay a pipeline system from the Island Breakwater to Dolphine Jetty for oil and its refined products to be moved away from the North Pier.

North Pier is to be developed into a multi purpose berth for break bulk and bulk cargo and containers.

As a consequence of the recent managerial decisions, the CSCL has been able to overcome the financial difficulties upto a certain extent. The new joint venture proposals will help to re-vitalise and re-activate its operations.

4.2.2 Private Sector (BOO/BOT)

The development of the port of Galle for transshipment container traffic had been abeyance for a considerable period of time. But a decision has been reached during this year and the construction is expected to commence in the near future.

The evaluation of a proposal for the development of additional berthing facilities adjacent to the QEQ by a leading shipping company is underway.

B. Transportation and Highways

1. Introduction

Most of the present problems relating to the transport sector are associated with inadequate funding, low capacity, absence of innovation and initiative in the relevant agencies. Moreover, the transport policy reforms of the past, like the privatisation of the bus depots of the SLCTB, had created new problems and disruptions rather than facilitating the swift movement of passengers and freight.

2. Objectives and Policy

- (a) Provision of an efficient transport system capable of meeting the demands arising from accelerated economic growth.
- (b) Increasing the operational efficiency of all modes by raising productivity through the application of modern technology and rational utilization of resources.
- (c) Enhancing the complementary nature of each mode in relation to other modes.
- (d) Developing a system of movement of goods and people that would minimize environmental damage.
- (e) Improving access to the rural areas through the provision of transport facilities and thereby integrating the urban and the rural areas.

In the light of the above objectives, and the current resources constraints, the viable option available to the Government has been to concentrate on the rehabilitation and maintenance of the existing assets while embarking on new projects quite selectively. In this respect, designing and implementing a regulatory framework that would safeguard the interests of all parties – the users, the operators and the workers - have become an important priority. It has become clear that, despite substantial increase in the budgetary provision as could be seen in Table I, the demand for financial resources has exceeded, what can be provided by the state, by a substantial margin. Therefore the participation of the private sector in the provision of transport facilities and services is very vital. In this regard, it may be noted that the local contractors have already been involved in the rehabilitation of certain road sections under donor assisted projects.

TABLE I

Capital Provision for Railways & Highways, 1990- 1996

Year	1990	1991	1992	1993	1994	1995	1996
Railways	1,506	2,079	2,007	3,642	4,163	4,598	4,976
Highways	2,379	3,311	2,869	2,933	4,471	5,699	6,732
Transport Agencies	45	6	27	52	29	86	51
Total	3,930	5,396	4,903	6,627	8,663	10,383	11,759

Source : Public Investment Programme, relevant years.
Budget Estimates, relevant years.

3. Achievements and Prospects

The time under review clearly differs from the previous years in respect of the performance of the various transport enterprises in spite of marginal reversals seen in certain areas of activities. A brief account of the progress in the various sub sectors – railways, bus transport, highways and aviation – is given below.

3.1 Sri Lanka Railways

3.1.1 The Inheritance

The scale of operation of the Sri Lanka Railways in terms of operated kilometres and revenue is expected to increase marginally during 1995 as given in Table 2 ; it is estimated that the passenger kilometres will increase by 7 per cent and the revenue by 5 per cent. The poor condition of railway tracks and the inadequacy of locomotives are, among others, responsible for the limited expansion of the railway services. Meanwhile, restrictions on train services to the North continued, as in the past few years, owing to the uncertain security situation there. The Trincomalee-Batticaloa train services were also disrupted causing long delays.

3.1.2 The Modernization

The OECF funded rehabilitation programme, covering the track, locomotives and the main workshop, has at last taken off the ground after a few abortive starts in the previous years. This in fact heralds the modernization of the Sri Lanka Railways. In addition, beginning with the purchase of two locomotives under the Indian Line of Credit in 1995, budgetary provisions are also made available for systematic purchase of rolling stock and other items. Further, with a view to improving the services on the Kelani Valley line, the programme of broad-gauging this line has now been extended from Homagama to Padukka. Broad-gauging up to Avissawela will be completed before the end of February 1996.

TABLE 2

Performance of the Sri Lanka Railways 1990-1995

Year	Unit	1990	1991	1992	1993	1994	1995
Passenger Kilometres	Mn	2,781	2,651	2,613	2,822	3,202	3,430
Passenger Revenue (Rs)	Mn	404	482	480	505	576	590
Ton Kilometres	Mn	164	169	177	159	154	148
Freight Revenue (Rs)	Mn	270	302	413	326	342	300

Note : Figures for 1995 are Projections.

Source : Sri Lanka Railways

3.1.3 The Commercialisation

A Business Plan is also being developed to place the Department of Railways on a more viable economic footing. Long term requirements like the Railway Electrification are also being planned while addressing the short term needs such as additional locomotives and modern

signalling system. The restructuring of the Sri Lanka Railways has already begun with the assistance of the World Bank. Therefore, the current strategy focuses on the conversion of the Sri Lanka Railways into a commercial venture, concentrating on customer oriented services, profit centres, and management information system among others.

3.2 *Bus Transport*

3.2.1 *Revitalisation Measures*

The scale of operation of the Peoples Transport Companies, 93 in all, increased during this period. In Table 3, we could see among others that these Companies operated 15.6 billion passenger kilometres in 1994 ; most notably, a 36% increase was recorded during the last quarter of 1994, as a result of the measures introduced by the Government. Similar increases could also be observed in other areas such as number of passengers transported and average number of buses operated daily.

TABLE 3

Performance of the Sri Lanka Transport Board & the Peoples Transport Companies, 1990-1995

<i>Item</i>	<i>Unit</i>	1990	1991	1992	1993	1994	1995
Buses operated (Average Daily)	No	3,151	3,359	3,550	3,709	4,207	4,851
Operated Kilometres	Mn	243	247	268	272	307	355
Vehicle Utilization (Average Daily)	No	211	201	206	202	200	205
Passengers Transported	Mn	888	769	867	909	976	1,175
Passenger Kilometres	Mn	13,674	11,454	12,840	13,608	15,613	19,731
Total Cost	Mn	2,900	NA	NA	3,876	4,511	5,321
Revenue	Mn	2,617	NA	2,645	2,751	3,346	4,118

Note : (a) Information for the period 1990 to 1993 was in respect of the SLCTB and the information for the ensuing years is in respect of the Peoples Transport Companies.

(b) Figures for 1995 are projections.

Source : National Transport Commission.

These were largely facilitated by the expansion in the fleet of vehicles, through the provision of spare parts and accessories on concessionary credit. A major rehabilitation programme to repair a large number of buses that are presently off the road for want of major repairs, has also been planned. Enhanced annual budgetary provisions has been obtained to subsidise operation on rural and uneconomic routes and for the provision of better school services. Innovative new services such as 'Women only' buses and long distance night services have also been introduced. Special programmes for testing and training of bus drivers, regular inspection of vehicles and managerial training programmes to improve the overall efficiency of the Peoples Transport Companies and the private operators are already under way.

3.2.2 Results

The implementation of these measures, since the last quarter of 1994, has resulted in the following improvements :

- (a) More than 100 new buses and 400 repaired buses were added to the existing fleet of buses.
- (b) 40 new services in rural areas were introduced.
- (c) Suspended services were restarted.
- (d) Number of buses operated per day by the Peoples Transport Companies increased from 4,207 at the end of 1994 to 4,620 at the end of June 1995.
- (e) Passenger kilometres of the Peoples Transport Companies rose to 9.5 billion by July, 1995 showing an increase of 12 per cent over the corresponding period in the previous year.

3.2.3 Restructuring

In view of the unsatisfactory services provided by the private sector, regulating the private bus services emerged as one of the urgent issues during this period. Action is already under way to reorganise the Peoples Transport Companies and the private bus operators into more efficient organisational structures that place emphasis on economic and operational efficiency. The proposed restructuring entails reducing the number of companies from 93 to 11 with a central organisation to coordinate the entire bus operation. Measures will be taken to improve and expand the bus services in rural areas. Subsidisation of such operations will be selectively done.

3.3 Highways

3.3.1 The Road Network

Sri Lanka has a road network of approximately 100,000 kms. This would mean that 1,524 kms. of road network are available per 1000 sq. k.m. of land area. The road density is higher than that of most countries in the region. However, funding and maintenance have been the major problems. The national highways which account for one-tenth of the network are rehabilitated with donor funding ; over a decade of donor assistance, only 1,000 kms. have been rehabilitated. This is only a fraction of the national highways. The provincial roads and local

roads are in a bad state of repair. The Government has therefore increased the funding for roads from 1995. As a matter of urgency, provision has been made in the Budget Estimates of 1996, for the first time, for the rehabilitation of local roads. The allocation for the provincial roads has also been increased by six fold. These allocations are indicative of the changing priorities of the public sector investment and, above all, the commitment of the Government to eliminate regional disparities and increase the accessibility within regions.

3.3.2 Donor Assistance

Donor assistance has been utilised effectively and as such donor funding is available for future rehabilitation and for the provision of new facilities, namely express ways and alternate highways. Besides the on-going Donor assisted projects, the following are the new Donor assisted projects for implementation in and after 1995 :

- (a) Third Road Improvement Project funded by the ADB commenced in 1995 for the rehabilitation of 167 kilometre of "A" and "B" Class Roads in the Western, North Western and Central Provinces.
- (b) Rehabilitation of 28 bridges, in the Western, North Western and Central Provinces, with Rs. 721 mn assistance from the Kuwait Fund for Arab Economic Development.
- (c) Expansion of the Victoria Bridge by two more lanes with OECF assistance in the region of Rs. 1,050 mn.
- (d) Provision of road building machinery and equipment by the OECF amounting to Rs. 3,855 mn.
- (e) Rehabilitation of the critical roads in Fort, Pettah and Maradana areas has already commenced in 1995, with Rs. 1,251 mn assistance from the World Bank. It is estimated that, from the roads already rehabilitated under this project, a saving of Rs. 610 mn per annum accrues to the economy by way of reduction in vehicle operating cost and travel time.
- (f) Feasibility studies for the Fourth Roads Rehabilitation Project with ADB assistance will commence in early 1996.
- (g) A new trace for the Colombo-Katunayaka express way is being undertaken in order to minimise the displacement of people of the area. Likewise, the Alternate Southern Highway, Outer Circular Highway, and Circular Roads to Provincial Capitals are being studied for early implementation.

Some of the new projects are being offered to the private sector investors for construction and implementation on 'build-own-operate' or 'build-own-transfer' basis.

3.4 Airports and Aviation

3.4.1 Airports

The second Phase of the Development of the Colombo International Airport will be undertaken based on a feasibility study. At the same time, the Domestic Airports will also be further developed with private sector participation in order to promote internal air travel and tourism.

3.4.2 *Aviation Policy*

The Aviation Policy will continue to place emphasis on liberalised access so that Airlanka could benefit from a competitive environment.

3.4.3 *Restructuring of Airlanka*

The national carrier Airlanka is being restructured to meet the challenge of competition from the other international airlines, by bringing in a strategic partner capable of infusing capital and enhancing the profitability. This is being done under the aegis of the Public Enterprises Reform Commission, which has already obtained the services of an international consortium to design the restructuring strategy and find a strategic partner.

4. **Conclusion**

In order to maximize the productivity of scarce economic resources, there is an urgent need to determine the optimum use of each of the transport modes and their priorities. This entails the following measures :

4.1 *Introduction of a New Fare Structure*

In the short run, the introduction of an appropriate tariff structure, designed to use the existing transport capacity optimally, becomes a necessity. In this regard, a Committee on "Public Transport Fares" was set up in March, 1995. This Committee has already formulated a rational Fare Structure with due consideration to the cost of operation, affordability, quality of service and the like. Pending the implementation of the Fare Structure that would cause minimum hardship to the commuter public, action has already been taken to improve the quality, comfort levels and safety standards of both modes by means of more effective regulatory measures, besides those measures already mentioned in the preceding paragraphs.

4.1.2 *Master Plan*

Over the long run, there would be a need for a Master Plan to govern the development, and expansion of the various modes. The World Bank assisted Colombo Urban Transport Study, once completed in 1996, will establish clearly defined policies and investment programme, covering a 20 year perspective plan, broken up sequentially into five - year operational plans, leading to increased efficiency of urban transport and facilitating the integration of the different modes.

CHAPTER 7

CONCLUSION

Any attempt to recapitulate the achievement of the first year of a Government can at best present a mixed picture. A substantial effort will have to be made in cleaning, as it were, the Augean Stables inherited from the past. The institutional innovations required to deal with the infirmities of decision making procedures for ensuring transparency and accountability only makes their impact felt in subsequent years. The economic impact of the new "rule of law" has been most pronounced in the area of foreign investment, and reputable players on the world's investment stage who had avoided Sri Lanka in the past have been encouraged to return in the new climate of probity in decision making.

It is expected that the future growth momentum established by high levels of investment will be reinforced by qualitative factors making for improved resource allocation within the economy. A crucial role will be played in this regard by the rationalisation of the tariff structure on which a beginning was made in the first Budget in February this year, and whose implications will be followed through in the subsequent Budgets. The first step was to collapse into 3 tariff bands 35%, 20% and 10% the previous 4 band import tariff structure. The private sector was put on notice as it were that it would have to prepare itself for a greater degree of international competition by giving it advance warning that by 1998 the Government intends to move towards a single uniform tariff of 15 percent. The introduction of import competition can be expected to have in turn the effect of improving the efficiency of production domestically and thereby of reducing the prices to the consumer.

So far as budgetary expenditures are concerned, a good part of any year's capital budget represents the carry-over of expenditures from the past, and the financial room for new project initiatives is to that extent limited. The problem in Sri Lanka's case is compounded by the extent to which budgetary revenues are pre-empted by a range of inflexible expenditure which constitute, a first charge on these revenues. For the years 1993 to 1995 the burden of transfers to households, military expenditure, and interest on domestic debt, pre-empted as much as 70 to 80 percent of revenue, leaving only 20 to 30 percent of revenue available for all other current expenditure.

Since invariably other current expenditure exceeded the balance of revenue available, the residual financing had to come from non revenue source *i.e.* foreign grants, loans and domestic borrowing which had in addition to fund the entirety of a Government's capital expenditure. In this constrained situation, new public sector project initiatives were invariably tied to the negotiation of new foreign aid. For the rest, what any new Government attempts to do is to speed up the implementation of existing development projects. By the time the Government assumed office, Sri Lanka had acquired considerable notoriety for being one of the slowest countries to disburse aid committed to it. Disbursements averaged 12 percent of the annual aid commitment and the result of administrative tightening up in the first year of Government has been to raise the, disbursement ratio. This occurred in the 6 month period which elapsed between the April Meeting of the Aid Group in Paris and the Annual Meetings of the Bank and the Fund in Washington in October, as a result of a personal initiative taken by the President on entrusting this task to the Committee of Secretaries as a priority item on the Agenda.

Finally, the principal casualty of the excessive Budget deficit, of the 1980s was the squeezing of investment in both social and economic infrastructure. This has as indicated, begun to undermine Sri Lanka's proud record of social development by leading to grave impairment in the quality of education and health services. As a result Sri Lanka is also spending well below the East Asian norm for non irrigation core infrastructure *i.e.* communications, roads, ports and power. It is in these areas where a lack of skills and infrastructure can prove to be the critical constraint to private sector growth. As we have seen in 1995, a decisive new beginning is being made by increasing allocations both for the social sector and economic infrastructure. The Budgetary strategy that we expect to implement up to the year 2000 is designed to release adequate resources for these sectors while looking to the private sector also for an increased volume of infrastructure investment.



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