Sri Lanka's Development Thrust

Mallory E. Wijesinghe

SRI LANKA'S DEVELOPMENT THRUST

Some press comments on "the Economy of Sri Lanka. 1948 – 75", a previous publication by the author.

"In a class by itself as an economic survey of the post-war period."

"Interesting and thoughtful reading."

"A storehouse of information for all those interested in the welfare of Sri Lanka and its people."

"A most valuable and timely study of several aspects of the Sri Lankan economy."

SRI LANKA'S DEVELOPMENT THRUST

By
Mallory E. Wijesinghe
Founder Past President
Federation of Chambers of Commerce
and Industry of Sri Lanka

First Published in 1981

Printed by Aitken Spence & Co. Ltd.
Colombo 2, Sri Lanka
Colombo 1981.

To my daughter Hiranthi

and

sons Eraj and Sunil

Contents

AN INTRODUCTORY NOTE

Books on Sri Lanka, by Sri Lankans, and published in Sri Lanka, are becoming an almost extinct species but I have not written this book with an eye on its future antiquarian scarcity value.

It was primarily the very favourable and gratifying response to my earlier book, "The Economy of Sri Lanka. 1948 – 75" which prompted the writing of this book, and as the chapter headings, and contents show, Sri Lanka at the beginning of the eighties is in many respects a different country to what it was in 1975.

The last five years have seen not only a metamorphosis from stagnation to growth but also, for the first time since Independence, a change of direction.

All the governments from 1947 to 1977 gave welfarism priority at the expense of development. It was the United National Party Government under the leadership of Mr. J.R. Jayewardene which assumed office in July, 1977, that gave development the topmost priority and so after three decades of minimal growth, and even regression in some respects, the country is now advancing on the path of development.

The Jayewardene Government has got the economy moving which is in itself, quite an achievement, but this has not been done as in some other countries, at the expense of democratic freedoms.

The introduction of the Presidential form of government and the new Constitution of 1978 marked the end of the Westminister model of government but the rights of citizens have been safeguarded and entrenched by the provision of fundamental rights which have, for the first time, been made justiciable.

The constitutional changes cleared the decks for development and so both the physical manifestations and economic indicators of progress since July 1977 are there for all to see.

This book is basically the story of the efforts of a Third World country endeavouring to find its feet after crawling through three decades of independence. First steps are necessarily hesitant, and faltering, and while the international community has been helpful and sympathetic, Sri Lanka is gradually learning the lesson that ultimately there is no substitute for self-reliance.

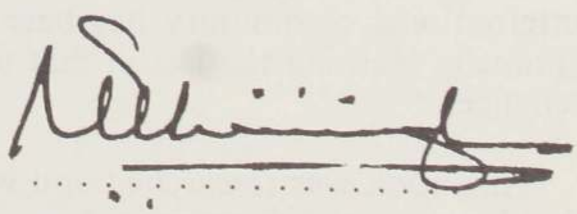
This book was researched and written between the third anniversary of the Jayewardene Government on July 22, 1980, which also marked the completion of half of its term of office, and the end of 1980. In the inclusion of data December 31, 1980, is the cut off point.

In my earlier book I had necessarily to refer to developments in the sixties when I was Chairman of the Employers' Federation of Ceylon from 1960 to 1971, and Chairman of the Ceylon Chamber of Commerce from 1964 to 1970. To that limited extent it was a trip down ego lane but there are no traces of autobiography in this book. Instead the focus is entirely on a period that may prove to be a watershed in the history of the country. Let me hasten to add that this book is not however a panegyric. In the examination of the progress made in various sectors of the economy I have drawn attention to the gaps between plans and performance – between rhetoric and reality. The "lead" projects are beyond the "take-off" stage but many other schemes are still in the "talk of" stage.

The chapter headings indicate the scope and content of each, but some comment is needed on the new chapters as compared to my earlier book. In that work I referred to the lack of reliable and accurate data on the economy in my introductory note. Since 1975 this problem has grown steadily worse and I have therefore made it the subject of the introductory chapter. It is not an apology, but a "cri de coeur" There are also new chapters on problems that have acquired a greater urgency in the last five years such as the need to conserve environmental resources, the energy problem, and the increasing attention being paid both internationally and nationally to the problems of poverty and malnutrition. The structural pattern and the methodology adopted here are basically the same as in my earlier work. I have tried to avoid repeating myself but, as Gunnar Myrdal once said, some things need to be repeated.

This book is being published in the year in which the Government and people of Sri Lanka celebrate fifty years of adult franchise. Sri Lanka is unique in the world in that at every general election since 1952 there has been a change of government and a peaceful transfer of power. Constitutional government has not only survived, but flourished, unlike in many other Third World countries.

As in the case of my earlier work this book too is aimed at the general reader in Sri Lanka and abroad. Students, businessmen, government officials, diplomats, and visitors to Sri Lanka have told me that they found my earlier book both useful and interesting. If this book meets with a similar response I shall be amply rewarded.



Colombo.

12 January, 1981.

Chapter 1

GROPING IN THE DARK — Sri Lanka's lack of data and documentation

When Thomas Gray wrote "Where ignorance is bliss, 'Tis folly to be wise" in the eighteenth century he was not thinking of the economic and social problems of the less developed countries in the twentieth century.

In my earlier book I referred in an introductory note to the difficulties of obtaining even basic data on the economy of Sri Lanka and to the conflicting and contradictory nature of available data which even hampered planning and decision making at the highest levels.

In the five years since the publication of my earlier work the problem of obtaining, or having access to the very limited information that is available, has become far more acute than it ever was.

"It would have been much easier finding Ceylon material in London than grubbing for information in Colombo" was Dr. A.R.B. Amerasinghe's agonised complaint in the preface to his work on Sri Lanka's State Corporations. "Not only was there much material wanting but what was more frustrating and disappointing was the complete indifference and absence of help on the part of those who were responsible" he wrote. (1) Is it any wonder then as a University Commission noted (in disapproval !) that University scholars go to Rochdale University to do research on the Kandy Perahara, or that the Institute of Development Studies at Sussex University is the Mecca of Sri Lankan economists.

Developing countries like Sri Lanka do not only lack the resources to solve their problems—they lack even information on their problems.

"There is in the Western world much more information about our problems than we ourselves possess" said Dr. Susantha Goonatilake, Director of Research at the People's Bank and Editor of the *Economic Review* at a seminar in Colombo to discuss the issues that were due to come up at U.N.C.T.A.D. IV. Dr. Goonatilake, who was addressing the creme de la creme of Sri Lanka's intelligentsia candidly added - "At an under graduate level some of the ideas that we are discussing here are decimated in the West." He deplored the fact that Sri Lanka had nothing comparable with the *New Internationalist* or the *Economist* but as will be seen later his own monthly publication is at least a beacon in the dark. (2)

One of the reasons why information is so difficult to obtain in Sri Lanka today is that heads of government departments are allowed to publish their annual administration reports as, and when, they please. Till about two decades ago departmental heads vied with each other in publishing their reports ahead of others. The classical minded - like the present Minister of Finance and Planning - spiced their reports with copious quotes from Horace, Ovid, Virgil, and all the other greats of the classical world. This breed of the dedicated public servant is unfortunately heading for extinction and today practically every government department is years behind in the issue of administration reports. These reports used to contain comment and criticism - but not any more. Bald statements of fact, and outdated statistics fit for the archives make up the contents of belated administration reports today.

Heads of State corporations and Statutory organisations have also been allowed to slide several years into arrears in the publication of their annual reports and accounts. As Minister of Finance, Dr. N. M. Perera, tried to get corporations to publish their reports within a year, but failed. To cite just two examples, the Ceylon Institute of Scientific and Industrial Research, and the Common Amenities Board, both published their annual reports for 1975 in September 1979. (3)

In the almost complete absence of administration reports the only fairly comprehensive source of information about the progress—or lack of progress - in the functioning of government departments, agencies, and institutions is *Performance* published by the Ministry of Plan Implementation.

This publication is the brainchild of the Secretary of the Ministry of Plan Implementation, Dr. Wickrema Weerasooria, who has done a remarkable job in ensuring that quarterly reports of the performance of the various government Ministries and departments are published within six weeks of the end of each quarter. There are also bi-annual issues which cover the first and second halves of each year, and annual reports that have, so far, surveyed activities in the years 1978, 1979, and January to September 1980.

The regularity with which these reports have been issued is in striking contrast to the lethargic manner in which most government institutions function but inevitably there is a great deal of uneveness in the quality of reporting by the different Ministries.

It was the intention of the President, Mr. J. R. Jayewardene, who is also the Minister of Plan Implementation, and the Secretary of the Ministry Dr. Weerasooria, that the *Performance* reports should serve as a monitoring device. In the "Forward" published in the first issue of *Performance* Mr. Jayewardene stated that while the publication could not contain "an incisive and detailed analysis of the shortfalls in implementation, and their causes" it could however be a useful "springboard for further examination and corrective action, where such action has not already been taken in areas of under-fulfilment."

Initially there was a tendency on the part of some of the reporting agencies to make exaggerated - if not wildly extravagant claims of what had been achieved in their respective spheres of activity.

Phrases such as "very good progress," "performance has been good," or "considerable improvement" abound in early issues of *Performance* but this tendency to magnify achievements has fortunately been less evident in recent issues.

The report for the period January to June 1980 contains a fairly detailed analysis of utilization of foreign aid which shows that most projects are far behind the targets of utilization of foreign aid.

In the section on public enterprises there is an editorial note that the review is incomplete owing to a "lack of response from several enterprises." What is even more intriguing is the statement that "There were also a number of enterprises which did not provide the appropriate information and thus were not included in this review."Is one to presume that there was no "performance" in these institutions? That individual State corporations should have failed to submit reports, or sent in reports that did not merit publication, is bad enough, but what is even more astonishing is that even some "Development Ministries" could not submit reports that were worthy of publication. An editorial note states that "due to the non-response of some Ministries and the poor quality of some of the reports that were received, we were forced to leave out some of the intended coverage." (4)

In one of the early issues of *Performance* Dr. Weerasooria stated that the publication was "only a means to achieving the objective of improved performance in the context of economic progress and development." What measure of success has the country achieved? The question is answered by the President himself in a foreword to *Performance* which covers the period January to June, 1980.

Mr. Jayewardene observes that "While we have made good progress, we cannot claim that all agencies have achieved hundred per cent of what they set out to do."

From mid 1980 *Performance* has been published in a brighter, larger, and more comprehensive format. The release of the issue covering the period January to September 1980 in November before the Central Bank could publish its *Review* of 1979 was a creditable achievement. Owing to the dearth of information on Sri Lanka 800 copies were snapped up in a few days but *Performance* which contains within its covers summaries of the activities of all the Ministries cannot by its very nature be a substitute for the detailed information that used to be available when heads of departments did not have to be prodded into issuing their administration reports.

On the credit side of government institutions it is a pleasure to be able to record that since the publication of my last book Sri Lanka now has at least one monthly journal that provides the general reader, and specialist alike, with facts, statistics, and comments, on economic and social trends. I am referring of course to the *Economic Review* of the People's Bank.

With the publication of this journal and the results of research studies by members of its staff the People's Bank has displayed greater initiative and public spiritedness than all its other more senior partners in government banking quarters.

It is to the credit of the editors of the *Economic Review* that they have often published views which could be regarded as "critical" - not so much in explicit comment but by the publication of data which makes comment superfluous. The People's Bank publishes facts which are in refreshing contrast to the "fiction" published by some older institutions.

The *Economic Review* published by the People's Bank is the closest any Sri Lankan publication comes to the Quarterly Economic Reviews on Sri Lanka published by the Economist Intelligence Unit Ltd. in London. The special value of these quarterly reports and the recent Special Report, No. 84 lies in the fact that they combine economic reporting with forecasting - an almost unknown science in Sri Lanka. Despite the fact that this publication draws on a very wide range of source material published locally and abroad, here too the lack of reliable and comprehensive statistics is often cited, as for instance, the "wildly conflicting" data on gem exports as provided by the Sri Lanka Customs and the Gem Corporation with the difference in value in one instance covering a three month period being in the region of Rs. 72 million.

Unfortunately owing to the high cost of subscriptions to U.K. journals even some leading government banking institutions do not subscribe to the whole range of Economist Intelligence Unit publications.

The latest E.I.U. special report on Sri Lanka was priced at £ 40. The postage was £ 2. and it was retailed in a Colombo bookshop for Rs. 1,700.

The Marga Institute is also a bright ray of light in the darkness that envelopes the Sri Lankan scene as far as a dissemination of knowledge of contemporary socio-economic problems is concerned. Sri Lankans have reason to be grateful to the Marga Institute which in turn has acknowleged its gratitude to foreign organisations which financed some of its studies. *Welfare and Growth in Sri Lanka*, a survey of social and economic developments from around independence to the early seventies was commissioned by the U. N. Research Institute for Social Development, with support from the Canadian International Research Centre. This book and *Needs of Children and Adolescents. A Case study of Sri Lanka*, sponsored by U. N. I. C. E. F. are invaluable publications and both publications refer to the besetting problem of the researcher - the lack of data. Mr. Godfrey Gunatilleke who was responsible for *Social Welfare and Growth* refers to the lack of adequate statistical data and other information for policy planning and policy making as well as any comments on this state of affairs. He states that the National Accounts were analysed for reliability by an I.B.R.D. mission which commented on "major discrepancies and methodological weaknesses." On the observation by the Seers Mission which I quoted in my earlier book that to govern "in Ceylon given the present state of its statistics and the present structural crisis, is like driving a racing car without headlights along a winding road at night" Mr. Gunatilleke says there may be "some exaggeration for effect in this colourful simile" but "it underscores the paucity of statistical data on the one hand and socio-economic research on the other." Obviously the lack of data hampers research and the lack of research creates a lack of data. This is Sri Lanka's vicious circle.

It is also a pleasure to be able to record some invaluable studies carried out by the most junior research organisation in Sri Lanka - the Agrarian Research and Training Institute.

Most of the research done by its staff has been in the nature of field studies in particular districts and the results of these surveys have been published in mimeographed form. In June 1980 the Institute released its first publication to be issued in the form of a printed treatise. It is symtomatic of the limited funds made available to research institutes that the A.R.T.I. had to thank the Overseas Development Administration, U.K., for financial assistance to publish the book. *Agriculture and Society in the Low Country (Sri Lanka)* by M. P. Moore and G. Wickremasinghe is a book which anyone interested in contemporary Sri Lanka should read. A footnote in the introduction in which the authors refer to books which give the general social, economic, political and historical background of Sri Lanka reflects the tragic paucity of books of this nature.

They cite K.M. De Silva (ed) History of Ceylon. Volume 3. From the beginning of the 19th century to 1948, University of Ceylon, Peradeniya, 1973, and K.M. De Silva (ed) Sri Lanka, A Survey, G. Hurst and Co. London 1977, as "two of the most useful sources." The only two general works on Sri Lanka have thus both been edited by a single scholar and historian who is Professor of History at the University of Peradeniya.

Prior to the joint work by Moore and Wickremasinghe the only other major study of agriculture in Sri Lanka was Dr. P.C. Bansil's book. Dr. Bansil too commented on the lack of data in respect of agricultural studies. He observed that there was no dependable information on total cultivated areas and total irrigated areas were "anybody's guess." Throughout his 407 paged book Dr. Bansil commented on the lack of information in such vital fields as subsidiary foodcrops, and livestock products. Even in respect of plantation commodities data was scattered in various publications making it difficult for any research worker to use them. (5)

In 1977 a group of social scientists who formed the Social Scientists Association of Sri Lanka realising the need for more original research decided to start a new journal called *The Social Science Review*. It was observed that academic methods and systems were "inherited and adopted from colonial sources" and even the topics of research were "influenced by foreign interests while the methodology has been purely imitative." Only two issues of this journal had been published up to 1980. (6) The first two issues have not shown any marked improvement or difference from the general run of such publications. There is much validity in the observation made in the People's Bank *Economic Review* that much of the research undertaken is done with foreign finances and Sri Lankans with distinguished academic records sometimes find themselves not directing the work of research but reduced to the level of research assistants of supervisors or "experts" from the funding agencies which include the U.N. and its specialised agencies. It would be unfair to assert that the "conclusions" reached in such research projects are vitiated by the fact that they are financed by overseas interests, but there is often reason to treat them with reservations.

That the Ministry of Finance and Planning is itself hampered by difficulties in obtaining data and information about development was seen in the official explanation of the reasons that prompted the Ministry to establish a centre for Development Information in October 1980 Official sources were quoted as saying that a large number of Ministries concerned with development found it difficult to locate or obtain information. There was "a duplication of effort by the generators of information, research workers, individual agencies, and foreign experts causing frequent delays in making vital decisions." (7)

The Department of Information as the official mouthpiece of the Government concentrates on the publication of speeches by the President, the Prime Minister, and other Ministers. Even *Sri Lanka Today* which incorporates *Ceylon Today* which used to contain a variety of articles of general interest now contains the full text of speeches made by key figures in the Government on missions abroad.

Advertisements can be revealing. On October 15, 1980, the Bank of Ceylon advertised for an economist to be in charge of an Economic Research Division it planned to establish. On the same day it also advised for a statistician to "gather data, compile, and present information."

The Central Bank's output is far from impressive considering its finances and high-powered cadre. In the last five years the Bank has been content with publishing its routine publications. They are the monthly *Bulletin,* the annual Report of the Monetary Board, and the *Review of the Economy* which is the work of a committee of the Department of Economic Research. Last year the *Review* for 1979 was released for sale in November 1980 simultaneously with the 1981 Budget speech of the Minister of Finance and Planning, and the *Performance* report of the Minister of Plan Implementation for January–September 1980.

The Bank used to publish *Staff Studies* by members of its staff and the articles ranged from some of a highly technical nature to others of interest to the general reader.The last issue of *Staff Studies* was Vol. 8. No. 1. which was published in April, 1978 and was subsequently advertised every month in the *Bulletin,* as the latest issue available. There was no indication whether the publication had been discontinued or not. (Vol. 8 No. 2. was issued in January, 1981 after a lapse of almost three years)

The belated appearance of academic publications was the subject of comment by Dr. Mervyn Pulle, in his presidential address at Section B of the thirty second annual sessions of the Sri Lanka Association for the Advancement of Science when he said "Our journals are years overdue. Are we in the mainstream of developments in our respective disciplines, or as the general rule in Sri Lanka are we lagging far behind without the faintest hope of being at par, or even just short of the latest developments." The problem is of course not confined to Sri Lanka. Stuart Turner, an economic journalist has noted that "The committing of millions of dollars is often based on macro-information so outdated as to be little more than of academic interest." (8) There have been empirical studies which have shown that investment is generally at very low levels when even basic information is lacking. It was because of this factor that the Japanese External Trade Organisation (JETRO) set up offices in Asian countries for the collection and dissemination of information. (9)

In a survey of industrialisation in Sri Lanka Dr. Neil Karunaratne has noted that "there are numerous prospective entrepreneurs who are willing to risk their capital on small-scale projects but are unable to get started due to the lack of indicative project planning data."

The lack of data affects even Sri Lanka's biggest and most lucrative industry, the tea industry.

The tea industry in Sri Lanka is one of the most highly State regulated industries in the world, quite apart from its vital importance in the economy of the country and yet as the Central Bank itself confesses "There are no reliable data on the actual area under cultivation." The acreage under cultivation is about 594,000 acres (240,000 hectares) but no precise figure in available. The Central Bank estimates that the area under tea cultivation has remained constant in the last decade because while some new areas have been brought under cultivation in other areas estate lands have been taken over for villlage expansion, or development schemes. (10)

The Department of Census and Statistics is perhaps the biggest single contributor to the repositaries of the Department of National Archives.

Personal callers at the department are referred to the Government Publications Bureau where the staff are only accustomed to requests for Hansard, the Government Gazaette, or Sessional Papers. Early in 1980 the department issued a *Statistical Newsletter* to replace its monthly *News Bulletin* which had not appeared for a very long period. Just one issue of the *Statistical News letter Parts 1 and 2* had been issued up to the middle of December 1980. Just how far Sri Lanka lags behind other countries is seen in the fact that the library of the Department of Census and Statistics contains foreign journals which contain factual information which is far more up to date than the publications the department has produced on Sri Lanka.

Among the specialised agencies of the United Nations, the International Labour Organisation has probably done more than any other international organisation in providing storehouses of information on labour, manpower, employment, basic needs, poverty, and a host of other aspects of the Sri Lankan economy. The I.L.O. has published both special studies and also complete reports of seminars. My indebtedness to the I.L.O publications is revealed in the Bibliography and in the references at the end of individual chapters. (Authors of studies on Sri Lanka have inevitably found it necessary to issue cautions about the unreliable nature of data available in Sri Lnaka.)

Graham Pyatt, and Alan R. Roe, are two scholars who have analysed the misleading nature of the data available. In a study of the economy undertaken on behalf of the I.L.O they note that much of the material which is being published is clearly inconsistent with other published data. In several cases two, or more, sets of data relating to the same phenomenon give strikingly different results, while there are also serious gaps in the availability of data, and prolonged delays in publication.

Commenting on the National Accounts data published by the Department of Census and Statistics, and the Central Bank, Pyatt and Roe say that the co-existence of two sets of accounts is a source of considerable confusion "Not least because the two estimates often display significantly different trends from one year to the next." To complicate and confuse matters even further the Ministry of Planning and Economic Affairs under the last Government also came out with its own statistics. "The waste of resources and confusion associated with this duplication of work" say Pyatt and Roe "is considerable and the case for an integration of effort is overwhelming." (11)

In what should be a simple exercise of calculating the country's food imports the Customs Returns, the Central Bank, and the Food Commissioner all provide different data based on different modes of calculation. Thus the Food Commissioner's returns for a particular year showed that the country had imported 11 per cent more rice, and 14 per cent more flour, but 11 per cent less sugar than the Customs Returns indicated. Whose data, or what data, does the Cabinet use when it makes decisions affecting the diet of every citizen of Sri Lanka?

An internationally famous telecommunication organisation sells its software with the sales line that "How a country handles its data will soon be more important than how it handles its oil, its coal, or its natural gas". Sri Lanka's problem is not in how it "handles its data" but in its almost complete lack of data.

Apart from the I. L. O. there is also U.N.E.S.C.O. which has published monographs on educational topics in a number of countries, including Sri Lanka. It takes, or needs, a perusal of some of these "working documents" as they are called to understand U.N.E.S.C.O.'s general warning that in some cases the authors wrote "in a language other than their mother tongue, which explains certain linguistic difficulties".

The Development Centre of the Organisation for Economic Co-operation and Development, Paris has also published useful studies on employment and agriculture in Sri Lanka.

As for the Government controlled media – press, radio, television and film, I can do no better than cite the view of the Editor of *Tribune* Mr. S. P. Amarasingham, a veteran journalist who commented that "Appointment of inept political favourites as "Directors of Publicity" is of little avail. Good publicity requires professionalism at its best and also sustained effort by dedicated men. Sri Lanka's government media and publicity services are sadly lacking in both." (12) Mr. Amarasingham is in a position to judge for he has conducted his own journal despite enormous difficulties for 26 years. Since the publication of my earlier book, Mervyn de Silva, one of Sri Lanka's best known journalists has published the *Lanka Guardian* now in its third year of publication. Both *Tribune* and the *Lanka Guardian* contain invaluable news and comment on matters of economic and financial interest but their main focus is naturally on political and international affairs.

REFERENCES

1. Public Corporations in Ceylon. Dr. A.R.B. Amerasinghe. (Colombo 1971)
2. People's Bank. Economic Review. December 1975.
3. Sunday Times. September 16, 1979.
4. Performance. January – June 1980. Ministry of Plan Implementation.
5. Ceylon Agriculture. A Perspective. Dr. P.C. Bansil (New Delhi 1971).
6. Social Science Review. Vol. 1 (1979) and Vol. 2 (1980) Journal of the Social Scientists Association of Sri Lanka.
7. Ceylon Daily News. October 28, 1980.
8. Asiaweek. December 1, 1978.
9. International Social Science Journal (UNESCO) Vol. 30. No. 2 1978. Vide "Determinants of Japanese investments in South East Asia" by Kunio Yoshiharo.
10. Central Bank. Review of the Economy. 1979.
11. Social Accounting for Development Planning with special reference to Sri Lanka. Graham Pyatt, Alan R. Roe and associates. An I.L.O. study (Colombo University Press. 1977).
12. Tribune. December 6, 1980.

Chapter 2

THE NEW INTERNATIONAL ECONOMIC ORDER — now — later — or never? — Trends in global aid

The need for "a new international economic order" was first highlighted in the programme of action formulated at the Summit conference of the Non–Aligned Nations in Algiers in 1973 and a blueprint for structural reforms was defined and fashioned at the sixth special session of the General Assembly of the United Nations in April 1974. It marked the beginning of the North–South dialogue but the seventies far from ushering in a brave new world were a period of recession fuelled by spiralling oil prices which have spilled over into the eighties and which show no signs of abating. However, if the seventies began on a note of hope they also ended on a note of optimism generated in the latter case by the Brandt Commission's report. In a world grown weary and disillusioned of hopes that flared, flickered, and finally faded away the Brandt Commission's report has evoked extreme reactions. The seventeen men and the solitary woman who constituted the Commission have been described as "visionaries" but the same tag (and even worse) has been applied throughout history to all reformers, the founders of all religions, and the fathers of all revolutions. Whether the Brandt Commission's report will mark a great divide, or watershed in history, remains of course to be seen.

What is noteworthy is that in the pages of the Commission's report (sadly neglected in Sri Lanka) luminaries of North and South reached concensus on a level that has never been achieved before with the North showing a degree of sympathy for the South in marked variance to the bitter in-fighting that normally prevails at international form The contents of the Commission's report are "chilling" (as *Time* magazine said) but the prospects of failure to implement the Commission's report are even more chilling. The Commission's findings (analysed later) were formulated against the backdrop of a gloomy global picture with the rich nations reneging on promises of aid, and raising the barriers of a new protectionism that could defeat the very purposes for which it has been invoked.

Despite increasing protectionism in the West, despite ODA being 0.33, per cent and far below the objective of 0.70, and despite an increase in their oil bill from 7,000 million dollars in 1973 to 44,000 million dollars in 1979 developing countries did not fare too badly in the seventies with an average growth rate of 5.3 per cent per year which was higher than that of the industrialised nations at 3.7 per cent.

Exports of manufactured goods rose at an average annual rate of 10 per cent and Third World countries also financed most of their development by saving and investing almost one quarter of their resources. These statements of course call for qualification. The Third World is itself a world of extremes.

The Third World consists of the members of OPEC and a wide variety of other countries ranging from advanced to the poorest of the poor, or vice versa. Among OPEC itself there are variations going upwards from Indonesia at the bottom to Venezula around the middle and Kuwait at the top. The advanced developing countries range from Hong Kong, Singapore, Taiwan, and South Korea in the East, to Brazil and Mexico in the West. The growth performance of these countries exceeded those of the USA and their growth in exports was 24 per cent compared with 14 per cent for the USA and 18 per cent for the industrialised group. At the other end of the scale are the poorest of the poor in South Asia and sub–Sahara Africa who make up 60 per cent of the population of the Third World yet produce only 16 per cent of GDP and less than 10 per cent of exports. The middle income group in the Third World recorded a per capita income increase of about 400 US dollars in the seventies whereas among the poorest of the poor the increase was only 40 dollars or less than 4 dollars a year. Average per capita income in the middle group was 1,225 dollars in 1978. In the poorest of the poor it averaged 185 dollars. (1)

As the Asian Development Bank pointed out the increase in per capita incomes did not significantly alter the overall picture of poverty. "The poverty of the large masses of the people" it stated in its annual report for 1979 "manifests itself not only in terms of low income but also in undernourishment and ill-nourishment, illiteracy, poor sanitation, low life expectancy at birth, and lack of social services, and urban housing".

Colombo itself became a forum for an eloquent exposition of the plight of most Third World countries in 1979 at the North/South Round Table organised by the Society for International Development whose President is Barbara Ward, the Baroness Jackson, while a Sri Lankan, Dr. Ponna Wignaraja is Secretary General.

"The 800 millions who live in the poorest conditions are worse off than ever as the hungry become hungrier, work recedes, life expectations shrink, and young children simply die" said Barbara Ward, in a statement to the session and this, she warned is only the "preface", since two billion more people will be added to the world's population by the year 2000 A.D. with at least two thirds of them being born in the poorest countries. (2)

Equally notable was Judith Hart's contribution. One of the most outspoken critics of the North's attitude of protectionism Mrs. Hart, as Labour Minister of Overseas Development was mainly responsible for the British Government's decision to finance the Victoria Project of the Accelerated Mahaweli Scheme. She was specially invited for the inauguration of work on the project in March 1980. In her paper at the SID conference in Colombo, she said "while the industrialised countries retreat into the contemplation of their own navels, the Third World faces unparalleled difficulties, most of which are not of their own making, or capable of their own independent solution." She said they faced not only the limitation of accesss to markets for their produce owing to the protectionism of the North but also the importation of the inflation of the North in essential manufactured imports. On top of that they faced a decline in real terms in development assistance and the impact of increasing oil prices. "If their economic advance is retarded by the impact of such external factors beyond their control, their capacity to import will be reduced, intensifying the spiral of world depression" she said. (3)

Mabub ul Haq, Chairman of the Programme Committee said that if there was no change in current trends, then by year 2000 there would be an extra 2 or 2½ billion people competing for the scarce resources of food and other necessities while in the Third World alone there would be 40 cities with over 15 million people each, mostly young, mostly educated, and mostly unemployed. An additional 16,000 billion dollars would have been spent on armaments and there would be another 15 nations with nuclear weapons to threaten the very existence of mankind.

As noted elsewhere in this chapter there are always rays of hope which periodically, at least, light up areas of darkness.

"In spite of the disturbing analysis of our international system and in spite of the disarray in which both doers and thinkers found themselves, the impression we carried away from these speeches was one of hope" wrote Dr. Paul Streeton in summing up the conference.

1980 was in a sense an end of an era for it marked the swansong of Mr. Robert McNamara who has presided since 1968 over the decisions of the World Bank which fashions the destinies of the developing countries.

There were just 28 signatories to the Bretton Woods agreement in 1944.

Next June (1981) when Mr. McNamara leaves the World Bank its membership should be in excess of its 1980 figure of 135 countries. In his 13 years Mr. McNamara has increased the World Bank's disbursements from 1,000 million dollars to 12,000 million.

In his foreword to the 1980 World Development Report, Mr. McNamara warns that unless there is rapid growth in both the industrialised and developing countries there will be a situation in which "hundreds of millions of very poor people will live and die with little or no improvement in their lot".

In endorsing the Brandt Commission's call for increased aid the report underscores the danger that higher energy prices and the slower growth of world trade will have severe effects on the poorest countries.

"Impaled on the trident of inflation and recession in the developed countries and much more expensive oil, world growth prospects have receded in the past year" states the World Development Report of 1980 issued by the World Bank.

"For about one fifth of the world's population who live in oil exporting countries the outlook is bright but the oil importing countries face slower growth and the developing countries also face two major challenges. First they must strive to continue their social progress in a climate that is less helpful than it was a decade ago or even a year ago. Second they must tackle the plight of 800 million people living in poverty who have benefited too little from past progress" the report states.

The Bank's "advice" to the industrialised countries is that they should help the developing countries by importing more from them. They also "should reverse the tendency for their aid to fall as a share of GNP and should encourage prudent expansion in lending from their commercial capital markets to developing countries". (If only the developed countries would act as they "should".)

"It is clear" says the report "that the world economy is now functioning so badly that it damages both the immediate and the longer-run interests of all nations".

In an emotional farewell address to the joint annual meeting of the World Bank and the International Monetary Fund Mr. McNamara said "It is shocking to reflect that in spite of the progress of the past quarter century . . . . it is probable that at the end of this century 600 million human beings will continue to live in absolute poverty."

And yet despite all his eloquent rhetoric Mr. McNamara was essentially conservative and under his direction the Bank adopted extreme caution in borrowing from capital markets.

One of the major and crucial recommendations of the Brandt Commission was a doubling of the borrowing–to–capital ratio of the World Bank from 1:1 to 2:1 with similar action by regional development banks. Under Mr. McNamara the bank never borrowed more than the equivalent of its capital.

Mr. McNamara's successor, Mr. Alden (Tom) Claussen is expected to not only borrow more but also increase private sector direct investments in developing countries.

Mr. Claussen who was Chairman of the Bank of America which is generally regarded as the world's largest made his bank the first to venture into co–financing of projects undertaken jointly by the World Bank and the commercial banks. Mr. Claussen has advocated a massive increase in the flow of financial resources from the West to developing nations. "Where people are desperate" he once said "you have revolutions. It is in our own evident self-interest to see that they are not forced into that". (4)

Only newspapers and not books can keep pace with OPEC's price increases the latest of which, an average of 10 per cent, was decided on in Bali in December 1980 as this chapter was being written.

In 1974 the LDC's spent 4 per cent of their income from exports on oil. By 1980 the figure had risen to 25 per cent.

The Group of Ten Commonwealth experts including Sri Lanka's Ambassador to the E.E.C., Dr. Lal Jayawardena set up by Commonwealth heads at Lusaka estimated that the net oil–importing countries which were unable to expand exports of manufactures would require amounts in the range of five to ten billion dollars in addition to existing external sources in 1980 and 1981.

"The lesson of history" the Group's report stated "is that starvation can be caused not only by a fall in food supply but also by such economic disturbances as balance of payments, deficits, unemployment and inflation." It deplored "the dangerous tendency amoung the world's leading nations to seek their own solutions. More urgent even than agreement on particular problems is progress towards re–establishing rules for collective decision making".

The problem facing non oil producing developing countries in the early eighties is that the additional debt service payments due on borrowings will erode both foreign exchange earnings and import capacity. According to the I.M.F., Managing Director, Mr. J. De Larosiere "reduced capacity to acquire real external resources will have a negative impact on potentials for capital formation and economic growth. (5)

The oil exporting countries had a current account surplus of 5 billion dollars in 1978; 68 billion in 1979 and 115 billion (estimated) in 1980.

In contrast the Third World countries (excluding oil exporters) had deficits in their balance of payments of 43,000 million dollars in 1979 as against only 6,000 million in 1973. The 1980 figure is expected to be around 68,000 million dollars.

What effects the war between Iran and Iraq will have on future production and prices are still not clearly discernible but in any event the portents are ominous. The rebuilding of the refineries and pipelines will take time and the world will continue to lose most of the 3 million barrels a day that Iran and Iraq used to supply. The decisions at Bali to increase prices by an average of 10 per cent shattered hopes that the split in OPEC would put an end to its price structure.

Most predictions and projections for the eighties are gloomy.

The annual report of the I.M.F. while forecasting a GNP increase of only one per cent for the industrialised countries has expressed doubts about the ability of non–oil developing countries which had a current-account deficit of around 70 billion dollars in 1980 to raise money in the capital market. It states that the debts of these countries are already large and it is therefore questionable whether they can withstand the costs of even larger obligations as private lenders may be reluctant to continue making funds available to the same extent as in the past.

"Such lending appears to be taking a more selective character and this tendency may become more stronger in 1981", the report states.

There is certainly not much scope for optimism on the basis of the record of the first year of the eighties. Mr. John Lewis, Chairman of the Development Assistance Committee (DAC) in Paris, estimated that aid from the 17 DAC countries which was 0.35 per cent of GNP would rise to only 0.4 by the mid eighties. Sweden, Norway, the Netherlands, and Denmark were the only countries which achieved or exceeded the 0.7 per cent target. The next biggest donor countries were France, Belgium, Australia, Britain, Canada, and West Germany whose aid ranged from 0.59 to 0.44 per cent, but Britain is due to cut its aid owing to its own problems of recession. One of the most disturbing features of the overall global situation is that while Western nations have been able to pay for dearer oil many Third World countries are cutting down imports and thus stunting development.

For the non-oil producing countries like Sri Lanka prospects are grim. Growth rates in the eighties will be lower than in the seventies. In a financial review timed to mark the annual general meeting of the IMF and the World Bank in September 1980, Melvyn Westlake said most oil–

importing Third World countries were experiencing the worst economic crisis they had faced since gaining independence and the indications were that the crisis would not be temporary as in 1973–1974. While the real price of oil will keep rising and world trade will grow even more slowly than in the past the Third World countries will also find it more difficult to obtain loans to finance their external trade deficits. The oil importing Third World countries will either have to cut imports which will effect development programmes or resort to more borrowing despite existing heavy debt burdens. (6)

It is surely more than "paradoxical" as Mr. Larosiere termed it that the industrialised countries which have still not utilised their full productive potential should hesitate to increase financial aid to poor countries when such aid will only generate increased global demand and contribute to the recovery of production.

BRANDT IN SHINING ARMOUR

Never has a report been received with so much enthusiasm and hope as "North-South; A Programme for Survival" the report of the Independent Commission on International Development issued under the chairmanship of former West German Chancellor, Willie Brandt.

The Commission was the brain-child of World Bank President, Mr. McNamara who asked Mr. Brandt "to head a private study of the unsettled and potentially explosive relations between industrialised and developing countries". The Commission set itself the task of studying "the grave global issues arising from the economic and social disparities of the world community" and of suggesting "ways of promoting adequate solutions to the problems involved in development and in attacking absolute poverty."

With a journalist and author as its script writer the report dramatises in picturesque and encapsulated prose some of the stark realities of the world situation. Magazines like *Time* picked on the purple passages - "three quarters of mankind is living on only one fifth of the world's income" - "800 million people live in desperate poverty" – "in 1978 more than 12 million children under the age of five died of hunger" - but the entire report is a confession of the failure of all attempts so far at redressing the imbalance between the rich and the poor.

Looking ahead to the millenium of 2000 A.D. has acquired a special mystique for economic planners. The Brandt Commission views the future through darkly tinted lenses. "There is a real danger" it states "that in the year 2000 a large part of the world's population will still be living in poverty. The world may become overpopulated and will certainly be overurbanised. More starvation and the dangers of destruction may be

growing steadily - if a new major war has not already shaken the foundations of what we call world civilization".

While using the geographical yardstick of North and South itself the Commission warns that "it would be an illusion to reduce all the problems of the world to the conflict between North and South. Our world has many more facets, and world development is not merely an economic process."

At the heart of most of the world's economic ills is the astronomical expenditure on armaments and it is on this subject that the Brandt Commission brings out some really vivid comparisons.

Item. One thousandth of the world's military expenditure would finance the entire malaria eradication campaign of the W.H.O.

Item. The money spent on one military tank would provide 1,000 classrooms for 30,000 children.

Item. The cost of one jet fighter would finance 40,000 village pharmacies. And so on.

During the Brandt Commission's sittings the world's armament bill was 450 billion U.S. dollars. (It has since increased to 500 billion) while official development aid amounted to 20 billion or less than 5 per cent of this figure. More than half of the total expenditure was of course by the U.S.A. and Russia. Although the greatest danger is from nuclear weapons, 80 per cent of arms expenditure was on non-nuclear weapons with Third World countries steadily increasing imports, and, in some cases, such as Brazil, becoming exporters as well. 70 per cent of arms imports by the Third World were from the U.S.A. (5.8 billion dollars), U.S.S.R. (4 billion dollars), France (2 billion dollars) and U.K. (620 million dollars).

"The major powers" says the Commission "sell weapons mainly to suit their own foreign policy, or to maintain regional balances, rather than to benefit their economies" and since the export of sophisticated weapons is accompanied by military experts there is also an aggravation of existing tensions.

On the waste of fuel energy Mr. Brandt in his introduction poses the question "Are we to leave our successors a scorched planet of advancing deserts, impoverished landscapes and ailing environments?". Here at least the North and South have much in common and a recurrent theme in the Commission's report is that with so much in common it is imperative to quicken the pace of development in the South in the interests of both the South and the North. The mutuality of interests extends of course from energy conservation to commodities and trade, food and agriculture, the monetary system and control of inflation, development and technology and finally ground and space communications.

In 1979 John P. Lewis, Chairman of the O.E.C.D. Development Assistance Committee writing in the *O.E.C.D. Oberserver* (November 1979) said the results of the collective D.A.C. aid programme were depressing and some donors were beginning to advocate "greater reliance on such non-traditional funding resources as seabed royalties, altered patterns of SDR distribution, and perhaps even experimental international taxes".

Mr. Brandt says that after an intensive exchange of views it finally concluded that new thinking is necessary to overcome the apparent shortcomings in the present system of development assistance.

"Why should it be unrealistic" he asks "to entertain the idea of imposing a suitable form of taxation on a sliding scale according to a country's ability? There could even be a small levy on international trade, or a heavier tax on arms exports. Additional revenues could be raised on the international commons, such as sea-bed minerals."

Can international taxation be levied without international government? Mr. Brandt's conviction is that "certain elements of what might be called international government are already called for to meet both mutual and national interests, and that by the end of this century the world will probably not be able to function without some practicable form of international taxation; and a decision making process which goes a good deal beyond existing procedures.

The Brandt Commission calls for an emergency action programme for the poorest countries requiring 4000 million dollars annually over the next four years, and a new approach to development finance with existing institutions increasing lending, and countries contributing according to wealth. It also advocates I.M.F. reform, with the I.M.F. taking more account of the social and political objectives of member countries, giving longer adjustment periods and providing proper representation of third world countries. Its plans for the reform of the world monetary system include the creation of an international currency for settling balances between central banks.

The Brandt Commission in its report stated that "At the beginning of the 1980's the world community faces much greater dangers than at any time since the second world war." Mr. Shridath S. Ramphal, the Commonwealth Secretary-General, who was a member of the Commission pointed out in a talk in Colombo that this observation had been made before Soviet intervention in Afghanistan. Mr. Ramphal's own address was before the war between Iran and Iraq. He said North/South relations had been deteriorating and the problems of development and world recession were deepening.

"It needs no great vision" said Mr. Ramphal "to recognise that we are now at a moment of great danger in the post-war evolution of human society. When East and West is each enlarging its arsenal of global destruction and justifying the escalation in terms of the other's offensive intent, we are, indeed, in time of peril."

What the Brandt Commission means to Sri Lanka was vividly brought home in a seminar organised by S.I.D.A. at the Central Bank where Dr. Wignaraja sounded not one warning but two. Iran, he said, was an example of a country where development had taken place but it did not percolate to the masses. If the example of Iran may have sounded comfortably distant to some he hastened to add that Sri Lanka had about the highest P.Q.L.I. in Asia but yet an insurrection took place in 1971. The message was clear.

In the "post-Brandt" period Third World countries have met with little or no success in their attempts at a fundamental restructuring of the world economy through new rules and principles governing international trade, financial dealings, and monetary matters.

The special U.N. General Assembly discussions held in August 1980 to formulate an agenda for North-South discussions in 1981 on reform of the international economic and monetary system ended in failure. At the heart of the problem is the fact that while developing countries enjoy a majority in the United Nations the specialised agencies such as the World Bank and the I. M. F. are controlled by the industrialised countries. Britain, the U. S. A. and West Germany also hold a high proportion of the world's foreign exchange reserves and have more to lose from reform than the other rich countries.

The Brandt Commission called for greater participation by the developing countries in the management and decision making of the I.M.F. but this is opposed by the "Gang of Three" as Britain, the U.S.A., and West Germany have been called on the grounds that control of the I.M.F. and the World Bank by the developing countries would undermine the credit standing of these agencies both in financial markets and in the legislatures which provide a large proportion of the fundings of these organisations.

The success, or failure of the Summit conference due to be held in Mexico in June 1981 will depend largely on the attitude of the Reagan administration which can predictably be expected to oppose the fundamental features of the Brandt Commission's report. The Reagan administration is pledged to spend more on defence which runs counter to one of the basic philosophies of the Brandt Commission.

Britain has been cold to the Brandt Commission's report and has announced its intention to increase bilateral aid rather than its contribution to multilateral institutions. Between 1980 and 1984 aid will fall in real terms by 14 per cent against a cut of only 4 per cent in public spending. With its pre-occupation with its domestic problems Britain is expected to slide to the bottom of the foreign aid league table by 1984. (7)

West Germany hopes to reach the Commission's targets of 0.7 per cent of G.N.P. by 1985 and one per cent by the end of the century but on past performance only the Netherlands and the Scandinavian countries are likely to increase aid appreciably in the next few years. At the Hague meeting of the Brandt Commission on International Development Issues in 1980 Jan de Koning urged that rich nations should write off their debts by 10 per cent annually. If this was coupled with all future aid being in the form of grants the Third World countries would be out of debt to the rich by 1990. He said "a clean slate" would be advantageous to all and exports from the developing countries could be matched by an equal volume from the rich. (8)

Holland has been prominent among European nations in identifying itself with the aspirations of Third World countries. The impetus came initially from Jan Pronk who became Minister of Development Co-operation at the age of 33 in 1973 when he urged – as Third World countries have consistently urged – that there should be "fundamental structural changes in the system itself," as a pre-requisite to an equitable economic world order. Between 1973 and 1977 Pronk fought vigorously to exceed the O.D.A. target of 0.70 per cent by cutting domestic expenditure. Pronk was a member of the Brandt Commission.

Japan, the most outstanding success among Third World countries devoted only from 0.21 to 0.27 of its G.N.P. between 1976 and 1978 but it has shown signs of awareness of its realisation that an improvement in the economic position of Third World countries is essential to its own economic well being. The private sector and the public (in contrast to the experience of most other countries) have themselves been urging increases in foreign aid as part of government policy. (9)

UNCTAD. A SLOW BOAT IN STORMY SEAS.

UNCTAD is the main forum of confrontation between the Third World and the developed nations and Dr. Gamani Corea the Secretary - General has had the extremely difficult task of holding together countries and groups with divergent and conflicting interests. UNCTAD has not proved as much a catalyst for change as Third World countries would wish and its rate of progress even in primary objectives such as the Common Fund for "core" commodities, the Code of Technology and the regulation of restrictive business practices has been tortuously slow but it would be simplistic to evaluate the performance of a global organisation dealing with extremely complex economic issues in terms of success or failure. In some respects at least patience and pertinacity have brought results.

Over the years UNCTAD's role has changed. At a seminar organised by the Marga Institute before UNCTAD V at Manila, which, by all reports and assessments was the least successful of all such conferences, Dr. Corea said "Our organisation has been up to now a pressure house for both groups – developing and the developed countries. In the future we hope to hold a negotiator's position".

How effective has UNCTAD been in the achievement of a New International Economic Order?

According to Dr. Raul Prebisch, who was the organisation's first Secretary - General the results achieved so far have been "meagre". He agrees that the excuse offered of the existing difficult world situation is valid but notes that very little was achieved even in the period of prosperity before 1973.

Prebisch's comments read almost like an obituary when he says "we have seen the appeals of the developing countries meet only with objections, negative attitudes, and indifference, if not hostility. A few enlightened Northern countries have adopted positive attitudes but their economic influence is unfortunately much smaller than their moral and intellectual weight."

There seemed to be a ray of hope in Dr. Kissinger's proposal at Nairobi for an International Resources Bank but Kissinger himself later admitted that the main objective was "to ensure a supply of low priced commodities for the industrial centres". And so as Prebisch observes "one fruitless intergovernmental meeting has followed another and new organs have been invented only to become bogged down in discussions from which nothing concrete emerges; the North-South dialogue and the Paris Conference, the new Committee of the whole of the General Assembly – are there no UNCTAD organisations already in existence?" (10)

Prebisch, it will be recalled threw up his job in disappointment after UNCTAD II.

A Third World economist who categorically asserted that UNCTAD "has failed to deliver the goods" is Dr. M.A. Hussein Mullick, Chief of Research at Pakistan's Institute of Development Economics. He felt that UNCTAD did more "to cool down tempers in the Third World rather than to advocate aggressively the cause of the less developed nations" and that Third World nations which had barely any hope of wresting concessions from the West should shift from a position of dependence to self-reliance as UNCTAD had become a "dependency" of the developed nations.

Mullick's views were expressed between UNCTAD IV at Nairobi and the fifth conference at Manila. The "failure" of the Manila conference evoked even stronger expressions of futility and pessimism. (11)

"The fifth United Nations Conference on Trade and Development will make history because of what it did not do rather than because of what it did achieve" wrote Maria Elena Hurtado, a Chilean journalist working for the World Development Movement in London. "For once" she observed "an international conference agreed to disagree. For once it was an honest affair in which only minor attempts were made to paper over the divergent approaches."

In listing the achievements and the failures of UNCTAD V Miss Hurtado said that the achievements were minimal. A vague declaration against protectionism, a pledge to increase aid to the least developed countries, and of course the inevitable decision to summon another conference on economic co-operation among developing countries. The conference failed to agree on the crucial question of structural changes in the world economic system. "What we saw in Manila" says Miss Hurtado "was the final shattering of the hopes of the poor countries that the West would live up to its endorsement in 1974 of the plan of action for the establishment of the New International Economic Order. (12)

Dr. Corea, better known for optimistic and diplomatic statements had for once made a pessimistic forecast that "all hell will break loose" if they went into UNCTAD V without any commodity agreements, and his view was endorsed by Mr.Shiridath Ramphal, Commonwealth Secretary-General (13) but UNCTAD, and the world community survived the failure at Manila. In fact considerable progress was made after Manila.

Is UNCTAD settling into a routine, or rut, of marking time? Mr. John P. Lewis, Chairman of the O.E.C.D., Development Assistance Committee maintains that at UNCTAD V negotiations on both sides tried to "confine issues to further negotiations" and he feels that if the moderates on the two sides persist along a no- win path then the advocates of "radical action" may succeed in disrupting the international economy beyond early repair". (14)

A candid admission of what happens at UNCTAD conferences was made by Dame Judith Hart, former Minister for Overseas Development in Britain when she addressed the second session of the North -South Round Table held in Colombo in August, 1979. She said such conferences are attended by Ministers "who deliver themselves of a 15 minute plenary speech, have dinner with somebody, and then go home. The rest of the conference is done by officials. On the rare occasions when Ministers themselves have been intimately involved in the actual negotiations over a period of time, there is a perceptible difference in what happens at the end". She said some of the issues of real conflict were due to the fact that at repeated conferences officials merely stated their governments' positions on these issues. There was no change from one meeting to the next which would not happen if officials reported back to Ministers and these areas of difficulty were then the subject of Ministerial negotiations. (15)

On a less consequential level a Reuter agency correspondent described the Manila sessions as "FUNCTAD" because apparently a number of Third World delegates were absent or asleep at meetings having had "fun" with the metropolitan "hospitality girls". Commenting on the fact that Sri Lanka's leading newspapers had published this report Mr. Mervyn de Silva, Editor of "Lanka Guardian" plaintively asked "why do we willingly circulate such reports? Why do we spit in our own face and become accomplices in this sordid game of self-denigration?" (16)

After years of frustration and apparent failures at times Dr. Corea was able to announce in October 1980 that the first commodity agreement on rubber had become provisionally operative. The international accord on rubber not only created an unprecedented type of international financial institution to stabilise prices which is beneficial to both producers and consumers but was also a significant development in the North - South dialogue. The rubber pact was the first agreement to be concluded since UNCTAD launched its commodities programme in 1976 and may set a precedent for international decision - making.

The origin of the history of commodity agreements has been traced to a World Economic Conference held in Geneva in 1977 but its immediate history goes back to UNCTAD IV at Nairobi in May 1976 when agreement was reached on an Integrated Programme for Commodities whose main features were the establishment of buffer stocks, a Common Fund to finance such stocks, and compensatory finance when prices declined below certain agreed levels.

The Common Fund, said Dr. Corea, was not an exercise in aid or assistance from the rich to the poor. "It is on the contrary predicated on the concept of a co-operative endeavour on the part of the entire international community which has a common interest in imparting strength and stability to the world commodity markets".

The rationale of the Common Fund according to Dr. Corea is that fluctuations in commodity prices of which Sri Lanka has had numerous and costly experiences in both exports and imports could be eliminated through international action to support markets when prices decline and to moderate excessive increases in prices when demand exceeds supply. Experiments in buffer stocks had failed due to problems of financing or lack of political will. There had been no efforts by both producers and consumers to share the financing of buffer stocks on a compulsory basis. At that stage Dr. Corea felt that the total costs of financing all ten core commodities would be around six billion U.S. dollars which could be secured through recourse to commercial markets and through subscriptions by producers and consumers. (17)

It was only in March 1979, almost three years after Nairobi that a 101-- nation conference agreed on the fundamentals of the Common Fund of 750 million U.S. dollars made up to two accounts or "windows" of 400 million and 350 million. The first "window" of $ 400 from direct government contributions is to be used to finance international buffer stocks. Of this amount $ 150 million will be contributed in cash, an equal amount as capital on call, and $100 million as callable capital. Each of 150 participating nations would contribute 1 million dollars each and part of this would be utilised for the second "window" to finance research on production, marketing, distribution, etc. A major part of the funds was also expected from voluntary contributions. On the scale proposed the Group of 77 (developing countries) would contribute 10 per cent, Group B (industrialised countries) 68 per cent, Group D (socialist countries) 17 per cent, and China five per cent. O.P.E.C. has already agreed to pay the one million dollar subscription of the thirty least developed countries.

The decision that governments should make minimum equal contributions of $ 1 million per country was strongly influenced by the recommendation of the Group of 77 who met at Arusha, Tanzania, in February 1979 to formulate negotiating strategies of UNCTAD V.

The Group of 77 left open for further discussion the size of the Common Fund which they said should be of a magnitude to attain the objectives for which it was established. They did however express disappointment and concern that "the negotiations undertaken since UNCTAD IV in 1976 have not yet yielded the expected results so far and that no significant progress has been made in the implementation of the Programme of Action on the establishment of a New International Economic Order owing to the lack of political will on the part of most of the developed countries."

In voting rights the Group of 77 will have a major share with 47 per cent; Group B 42 per cent, Group D 8 per cent, and China 3 per cent. Important major decisions such as increasing the Fund's capital would be taken by a majority of three quarters of total votes cast.

The articles of agreement prohibit any single regional group from securing a majority of the votes. This was underscored by Dr. Corea on a visit to Sri Lanka when he said "There has been no similar institution in the past. Unlike the other existing financial institutions such as the I.M.F., World Bank, and regional development banks, the Common Fund gives the developing countries a significant voice in the pattern of voting and decision making." Dr. Corea added that "certain important decisions will be subject to approval by qualified majorities." (18) For instance any decision to increase the Fund's capital will require a two-thirds majority.

The original list of 18 commodities which covered about 60 per cent of primary exports of developing countries was later reduced to ten "core" commodities. These were coffee, cocoa, tea, sugar, cotton, rubber, jute, hard fibres, copper, and tin. While the original list has 12 agricultural products and six metals the ten selected "core" commodities are all agricultural except for copper and tin. In the case of 4 of the "core" commodities, tin, cocoa, coffee, and sugar, four earlier or existing agreements between producers and buyers had ceased to be operative owing to various factors. Since the "old model" or individual commodity agreements had failed UNCTAD aimed at an Integrated Programme on Commodities through a multi-commodity common fund. (19)

It may be premature to describe the Common Fund as the only success story in the North-South dialogue as the Fund has still to be ratified by 90 countries representing two thirds of the Fund's capital. The 28 nation Preparatory Committee which began its sessions in Geneva in October 1980 is due to end its deliberations only in March 1982.

There are also doubts whether the Fund's resources will be adequate. It is expected that the contributions of individual governments, money from the commodity agreements, and capital loans, will amount to three billion dollars which will however be only half the six billion dollars which Third World producers originally called for. The hopes that the Common Fund would "act as a catalyst" for the establishment or renewal of a total of 18 commodity agreements are still a very long way from realisation.

The American economist, C. Fred Bergstan has shown that if stable commodity prices had been instituted ten years ago "the economic gains for Americans (in prevented unemployment and G.N.P. loss) would have amounted to 15 billion dollars over the decade and it would take price increases of 30 per cent to 200 percent in core commodities to cause even a one per cent increase in the U.S. consumer price index" Western governments, as Susan George argues in *Feeding the Few* have a very real interest in promoting price stabilization on a world scale. The "dinosaurs" she says "see the unchecked activities of the market as the best allocator of the resources. But it is possible that one day certain facts may filter through even to the dinosaurs." (20).

84 per cent of exports of the core commodities are from developing countries with annual per capita incomes of less than $ 900.

Sri Lanka, Bangladesh, Zambia, Zaire, Chile, Uganda, Mauritius, and Rwanda are the countries that will benefit most from the implementation of UNCTAD's Integrated Commodity Plan for ten "core" commodities as over 70 per cent of their exports are of these "core" commodities. Burma, Indonesia, India, and Pakistan will benefit relatively less.

The greater part of the financial burden of the Common Fund will have to be borne by European countries and Japan whose imports of core commodities are five times more than those of the U.S. This all crystallises into the simple home truth that trade is a two-way street. The developing countries need assistance both to buy the goods of the industrialised West and to repay their debts.

A fundamental and basic weakness of the Common Fund is that it perpetuates the dependence of the developing countries on the industrialised countries many of which were the former colonial powers. A new form of colonialism replaces the old. This is why Dr. Corea has called for greater attention to mutual co–operation among the developing nations in the eighties instead of their being oriented towards the developed countries. At present there is even a lack of co–operation among the State trading corporations in the Third World which could provide mutual benefits and replace dependence on developed nations.

The concept, or strategy, of collective self–reliance for the Third World so that it would be in a stronger bargaining position with the West was spelled out by the UNCTAD Secretariat in a background note prepared as far back as 1975 before the Nairobi conference but it still remains an elusive ideal.

Among the advocates of a Third World Secretariat on the lines of the Organisation for Economic Co- operation and Development is Mr. Shridath Ramphal, the Commonwealth Secretary-General.

While in Colombo in August 1980 for the Commonwealth Education Conference Mr. Ramphal told a news conference that Third World countries usually went into negotiations inadequately prepared whereas the North was always well organised. That delegates from Third World countries are generally less prepared with their "briefs" at international parleys than their western counterparts is well known.

Is UNCTAD outdated? Sri Lanka's Minister of Finance and Planning, Mr. Ronnie de Mel has gone on record as saying "the thinking behind UNCTAD, in my opinion, is quite out of date. Events have overtaken UNCTAD. The oil producing countries have formed their OPEC Why should we not combine with the main rubber producing countries in the world to form an OREC, an Organisation of Rubber Exporting Countries?" This statement was made by Mr. de Mel as chief guest at the annual general meeting of the Ceylon Chamber of Commerce on July 19, 1979. He went on to ask why Sri Lanka and India which produce more than 50 per cent of all the tea in the world do not combine to obtain better prices for tea.

Sluggish world growth, increased unemployment in industrialised nations, and a development crisis for the poor are UNCTAD's predictions for 1981. It expects growth rates for the member countries of O.E.C.D., Japan and the U.S. to be 1.7 per cent in 1981. "This crisis situation is expected to continue during the next two years with only some slight amelioration due to more favourable conditions in agriculture" states an UNCTAD report on the world economic outlook.

REFERENCES

1. Economic Impact. (International Communications Agency U.S.A.) 1980/4
2. International Development Review. 1979/4.
3. Ibid. 1980 Nos. 1 and 2.
4. The Economist (U.K.) and the Sunday Times (U.K.) quoted in the Sun. December 6, 1980.
5. Ceylon Daily News. July 30, 1980.
6. The Times. (London) September 29, 1980.
7. Ibid. August 14, 1980.
8. Holland Herald. Vol. 15 No. 7, 1980
9. Earthscan reported in Ceylon Daily News. October 17, 1980.
10. Trade and Development. An UNCTAD Review. No. 1 Spring, 1980.
11. People's Bank Economic Review. May, 1977.
12. International Development Review. 1979/3.
13. Sunday Times. January 7, 1979.
14. Current Awareness Service. International Economic Co-operation Division. Ministry of Finance and Planning No. 80/2.
15. International Development Review. 1979/4.
16. Lanka Guardian. Vol. 2 No. 4, June 15, 1979.
17. UNCTAD Bulletin. No. 123. December 1976 and No. 147, December 1978.
18. Sunday Times July 24, 1980.
19. People's Bank Economic Review. Jan/Feb. 1979.
20. Current Awareness. No. 81/2.

Chapter 3

SRI LANKA — a bigger begging bowl

Sri Lanka's first Prime Minister, the late Rt. Hon. D.S. Senanayake used to preface most of his statements with the words "Actually as a matter of fact". When he said that Sri Lanka did not expect any grants, or loans, from the United States of Aemrica, or any other country he made a very "matter of fact" statement.

In 1951 when Sri Lanka joined the World Bank, Mr. J.R. Jayewardene who was then Minister of Finance told the House of Representatives —"we have no intention of seeking loans."

Ten years after independence the renowned economist, Joan Robinson said that if any foreign aid was forthcoming it would be welcome but there was no need to depend on it.

Three decades after independence Sri Lanka is in the unhappy and unenviable position of depending on foreign aid for 65 per cent of its resources for development. Sri Lanka is well and truly enmeshed in the debt "trap."

Foreign aid became an integral part of the Budget in the sixties but the addiction to foreign aid was a phenomenon of the seventies. The eighties have seen - and will witness - an intensification of the relationship between aid and development.

As the custodian of the nation's finances the Minister of Finance and Planning, Mr. Ronnie de Mel looks forward to the day – however distant it may be – when Sri Lanka will not be dependent on aid. In a statement to Parliament in June 1978 Mr. de Mel said "It should be our endeavour to do without foreign aid as soon as we can. I will indeed die a happy man only when I can state clearly to all the world that this country needs no foreign aid, that we can stand on our own feet and rely on our own efforts." (1)

In the euphoric atmosphere that prevailed immediately after the United National Party's massive victory in July 1977 it seemed as if the Government would face no problems in financing the ambitious development schemes it proposed to undertake. Mr. David Hopper, Vice President of the World Bank said "To a country like Sri Lanka which knows how to help itself we are prepared to give not twice but thrice." (2) Mr. Hopper who presided over the Sri Lanka Aid Consortium in Paris said he was impressed by the sense of dedication among all those he had met in Sri Lanka. "The President" he said "has correctly diagnosed the roots of stagnation; too much government intervention and subsidy. He and his Government have taken some bold decisions to return the economy to normalcy." (3)

In his first Budget Speech on November 15, 1977 Mr. de Mel said Mrs. Bandaranaike's Government had increased the debt burden of the country in an unprecedented manner. The total domestic debt had risen from Rs. 6,295 million in 1970 to Rs. 12,691 million in 1976. The foreign debt rose from Rs. 1,578 million in 1970 to Rs. 4,968 million in 1976. The total debt rose from Rs. 7,873 million in 1970 to Rs. 17,659 million in 1976.

In its first year in office the present Government negotiated Rs. 12,000 million in foreign aid exclusive of aid granted, or promised for the Accelerated Mahaweli Scheme, and the I.M.F's Extended Fund Facility and the Supplementary Financing Facility. The aid was in the form of non-repayable grants, or on long terms with either nominal rates of interest or no interest.

The Government negotiated a Stand-by credit of SDR 93 million (Rs. 1,690 million) from the I.M.F. and an additional Rs. 814 million was provided by the I.M.F. as a loan from its Trust Fund.

The volume of aid pledged at the 14th Sri Lanka Aid Group meeting held in 1978 was Rs. 6,000 million or 329 million U.S. dollars of which 129 million dollars was in the nature of outright grants.

Mr. de Mel said the country had been able to obtain "this unprecedented volume of foreign aid" at a time when O.D.A. had declined to 0.31 per cent because of the confidence foreign governments and international agencies had in the Sri Lanka Government.

Provision for Commodity Aid which stood at Rs. 1,620 million in the first Budget rose to Rs. 2,200 million in the second while expected Project aid and grants rose from Rs. 1,200 million to Rs. 2,150 million in the same period.

In 1979 the pledge of six billion rupees included an outright grant element amounting to Rs. 1.7 billion, with the balance on the "softest" terms possible. This did not include assistance for Mahaweli scheduled for later discussions and Mr. de Mel was able to claim that "Never in the history of Sri Lanka has aid been obtained on such concessionary terms before. Never in the history of Sri Lanka has so much assistance been given to our country in a single year."

In 1980 the Aid Group pledged Rs. 8,432 million which was Rs.2,512 million, or 42 per cent more than the aid pledged in 1979. Even more significantly about one third will be in the form of outright grants and the balance at varying rates of interest from ½ per cent to 3 per cent, grace periods of up to 10 years, and repayment in periods ranging from 30 years to 50 years.

In 1979 and 1980 however there was a stiffening in the attitude of both the World Bank and the I.M.F.

In a statement following the Aid Consortium's annual meeting in 1980 the World Bank said "Several participants cautioned against an over-ambitious public-investment programme which could force a reliance on expensive commercial financing." (4) Delegates were reported to have said that the programme should be re-examined carefully and that the housing and urban development programme should be restructured to redirect resources to provide direct benefits for the poorest sector of the population.

The World Bank statement added credibility to a report in the *Financial Times* (London) that Mr. de Mel " exploded in anger " at the scale of cuts urged on him at the Consortium meeting. The paper said Mr. de Mel in reply had pointed out that the Government had adopted almost revolutionary changes in conforming to I.M.F. policies and had taken hard and unpopular decisions in cutting welfare subsidies. (5)

The *Financial Times* in its own comment on the episode observed that Sri Lanka after having ended the seventies as "one of the success stories of the International Monetary Fund" found its strategies being knocked off course owing to rising oil prices, the global recession and more restrictive Western aid policies. The Government had either to accept the deflationary measures proposed by the I.M.F. or resort to international banks for expensive commercial financing. Commercial borrowings on the scale needed to cover the shortfall for the investment programme would carry the debt service ratio from the level of 10 per cent to "a shattering 40 per cent by the end of the decade."

Mr. de Mel's version of what transpired at Paris on July 1 and 2, 1980 as stated to Parliament was that "The Chairman drew attention to what he described as worrying signs of an over-heated economy. He expressed concern that the economy was being exposed to severe constraints like world inflation, increased construction costs, higher costs of energy, and imported food commodities, machinery, and manufactured goods".

About his own role at the talks Mr. de Mel said there were "no explosions of anger, no thumping of tables, no walk outs. These are all the usual figments of the imagination, the wild fantasies of certain sections of the press."

Without referring to the " lead " projects of Mahaweli, F.T.Z., and urban development Mr. de Mel called simply for a stepping up of production " in agriculture, in industry, in the plantations, in fisheries, and in other sectors of our economy" and added "Please cut down extravagance, ostentation, waste, and unnecessary expenditure. Please put production on a war footing. Our performance in this field has not matched our expectations. We have three years more to go and many things to put right." (6)

In reviewing the foreign aid received by the Government in the first half of its term of office, Mr. de Mel revealed in his fourth Budget Speech that the total of aid in the three years up to June 1980 had been Rs.22,829 million. Of this Rs. 13,907 millions consisted of concessional loans and Rs. 8,922 million was by way of outright grants. As much as 56 per cent of the aid was commited in the period July 1, 1979 to June 30, 1980.

The Minister who had earlier spoken of Sri Lanka's debt service ratio being lower than that of many other Third World nations went on to claim that in the receipt of aid Sri Lanka had been able to obtain a greater volume of aid per capita "than perhaps any other Third World country."

A shift from commodity aid to project assistance and a diversification of donors have been some of the major trends in foreign aid in recent times. In 1978 commodity aid commitments exceeded project aid by 14 per cent but in the first six months of 1980 commodity aid was only 6.8 per cent of project aid commitments.

Among the new donors in the Aid Lanka Group are Switzerland, Belgium, Finland, and Austria. Several Middle-East countries and multinational organisations have made commitments or pledges that should help to offset any decline in aid from traditional donors.

In the period July 1979 to June 1980 Sri Lanka negotiated over 60 agreements. Of these the largest single grant was Rs. 3415 millions from Britain for the Victoria Dam Project and the largest single loan of 76 million Canadian dollars was from Canada for the Maduru Oya project. Norway was second to Britain in outright grants with 33 million U.S. dollars while Japan has provided 40 million dollars for the modernisation of Colombo port. This sum is repayable over 30 years inclusive of a grace period of 10 years at an interest rate of 2.75 per cent per annum. (7)

The 1980 Budget witnessed the unusual phenomenon of major "surgical" cuts in the votes of 16 Ministries after the Estimates had been printed and tabled. The cuts were undoubtedly on what is euphemistically known as the "advice" of the World Bank and the I.M.F.

Both the World Bank and the I.M.F. have permanent representatives in Colombo and they also send periodic visiting missions. A seven member World Bank team headed by Mr. Sarwar Lateef called for further cuts in the Mahaweli Scheme in which targets had earlier been lowered or deferred by the Government of Sri Lanka. Mr. Lateef's mission noted that "Although the programme is now much more manageable, it remains highly ambitious and will greatly strain available material and financial resources." The team also called for major cuts in housing and urban development.

In a report titled *Sri Lanka – Key Development Issue in the 1980's* the World Bank while paying tribute to the Government for its "courageous resource mobilisation and allocation decisions" which showed that it was prepared to act "decisively and realistically" noted that there were danger signals such as the increase in construction costs by over 50 per cent while inflation had accelerated to an annual rate of 32 per cent. It noted that the rate of inflation in Sri Lanka was higher than that of its trading partners and competitors. This was eroding Sri Lanka's competitive position and reducing the value of incentives provided in 1977. It described the incentives for agricultural crops as inadequate.

The report stated that although ceilings had been placed on the Mahaweli Scheme, Free Trade Zone, and housing and urban development the costs had accelerated. These "lead" projects were estimated to cost 42 per cent of public investment in 1980 as against 31 per cent in 1979."To the extent that their costs are still being underestimated their weight in the program could grow over time unless the financial ceilings are strictly enforced", the report stated. It described the incentives for quick yielding production-oriented investments as inadequate and said the programme relied too much on the private sector for production gains in the medium term. (8)

The report recommended that "all construction that could be delayed until after 1981 would serve the dual purpose of reducing immediate inflationary pressures and ensuring future stable growth in the sector" and stated that there was a clear need to cut back on construction intensive investments and the housing and urban development programmes.

While the World Bank has been critical of certain aspects of policy in special country reports and those presented at the Aid Consortium it refers in fairly generous terms to the overall performance by the Government in its annual report for 1980. It notes that except for the tree crops sector growth was spread throughout the economy helped by record paddy harvests; savings and investment had increased markedly; unemployment declined to about 15 per cent; measures had been taken to cool the economy (earlier described as overheated) and slow inflation and also increase public savings. On the debit side in addition to the poor performance of the tree crop sector and State corporations it also noted shortages of skilled manpower, and the inability of the construction industry to meet the rise in demand. (9)

The report discloses that Sri Lanka received 151.5 million U.S. dollars from the Bank's soft-lending affiliate in the fiscal year ending June 30, 1980. This compares with 68 million dollars in the fiscal year 1979. I.D.A. credits are for 50 years with a grace period of 10 years and are interest free except for a service charge of ¾ to 1 per cent to meet administrative costs.

Mr. de Mel normally at the receiving end of World Bank "advice" called on the Bank and the I.M.F. to adopt " a new outlook " at the annual meeting in Washington in October 1980. He said an overdose of demand management policies would only create further social problems and adversely affect the poorest of the poor. "We from Sri Lanka" he said "believe in co-operation not confrontation, in an increasingly inter-dependent world." Referring to the Sri Lankan experience Mr. de Mel pointed out the difficulties of making structural adjustments or reordering investment priorities. After outlining the economic measures taken by the Government in 1978 Mr. de Mel said "The entire programme was endorsed by both the Fund and the Bank. The people endured the widespread hard-ships consequent on the enforced cuts in consumption, welfare, and subsidies as they could see the prospect of economic growth, development, and employment. Yet the unprecedented cost increase last year and this year due to world inflation have undermined the entire programme and upset the most careful considerations within the space of two years since 1978. Under current interpretation of Fund policies there seems to be no alternative but to strictly tailor the investment programme to reduced availabilities. But the fact of the matter is that most Third World countries do not have enough cloth to cover our nakedness."

While calling on the World Bank to provide non oil developing countries with a special facility to finance oil imports Mr. de Mel said that such a facility should not be subject to the same conditions and criteria that governed the Bank's normal lending but should be based on the individual characteristics and needs of each country. He also called for a reduction in interest costs to a target category of countries. On the Bank's expectation that O.D.A. will increase only marginally from 0.34 per cent of G.N.P. to 0.38 in 1985 Mr. de Mel said "It would surely be giving the wrong signals to the developed countries if the Bank were to be so modest in its expectations."

What the Minister of Finance has been saying was taken up by the Minister of Foreign Affairs, Mr. A.C.S. Hameed at the United Nations where he observed that I.M.F. credit was "hedged about with too many conditions for developing countries and takes too little account of domestic, social, and political realities." As a result the I.M.F. had financed only about 6 per cent of the deficits of developing countries since 1974. The current account of non-oil producing countries which was around 43 billion U.S. dollars in 1979 was expected to rise to 70 billion dollars in 1980. (10)

At the end of 1980 negotiations were under way for Sri Lanka to receive a loan of one billion rupees from the International Development Agency, an affiliate of the World Bank, for the transmission of power from the Mahaweli project to other parts of the country. Scheduled to begin in 1982 the project will involve a 220 kilowatt power line from the hydro power stations of the Mahaweli Scheme to Colombo and thereafter to other areas.

Non-utilisation, or misuse, wastage, and delays in the utilisation of foreign aid have become increasingly apparent in recent years.

In June 1980 the External Resources Division of the Ministry of Finance and Planning drew the attention of the Government to the fact that aid provided in some agreements signed four or five years earlier had been unutilized with no recorded disbursement of aid funds. In other cases the implementing agencies delayed to claim reimbursements with the result that the Ministry's own resources were strained. In an inflationary situation delays in implementation added steeply to the costs and deprived the country from obtaining the benefits intended. The Ministry cited the case of a sugar project due to be financed by the Asian Development Bank which had remained unutilized for over a year and observed that such cases could be "multiplied a hundred times over." (11)

The situation of under-utilised and under-claimed foreign aid has continued to deteriorate. In November 1980, Dr. Wickrema Weerasooria, Secretary, Ministry of Plan Implementation told a workshop in Colombo that large sums of the World Bank's commitments had not been claimed by the respective Ministries. He stated that aid was not paid in advance. The Treasury had to advance the sums involved in Sri Lanka rupees and reimbursement was only made on claims of expenditure involved. Defective claims could result in delays of six to seven months.

REFERENCES

1. Hansard. June 6, 1978.
2. Asiaweek. December 1, 1977.
3. Lanka Guardian. Vol. 3. No. 6. July 15, 1980.
4. Sun. July 4, 1980.
5. Financial Times (U.K.) July 18, 1980.
6. Hansard. August 22, 1980.
7. Ceylon Daily News. October 25, 1980.
8. Weekend. July 13, 1980.
9. Ceylon Daily Mirror. October 22, 1980.
10. Tribune. September 13, 1980.
11. Ceylon Observer. June 25, 1980.

Chapter 4

SRI LANKA'S PROBLEMS FOR THE EIGHTIES — an overview

In the immediate post-war period Sri Lanka, or Ceylon as she was then known, became the prototype and model for other Commonwealth countries such as Malaya, Ghana, Nigeria, Sierra Leone, and Tanganyika in a peaceful transition to independence.

The policy of social welfarism which can be traced to the grant of adult suffrage in 1931 by the Donoughmore Commission gave Sri Lanka impressive records in education, public health, and life expectancy but at the expense of economic growth.

While successive Governments recognised the need for development, the schemes of development which were formulated such as the 10 year Plan in Mr. S. W. R. D. Bandaranaike's tenure of office, and the Five Year Plan of Mrs. Sirima Bandaranaike's second term from 1970 to 1977, did not get beyond the blueprint stage.

My earlier book was written at a time when it was becoming apparent that the much vaunted Five Year Plan had failed to get off ground. Unlike the Six Year Plan of 1947 and the Ten Year Plan of 1959 this was the first plan in which the Government which formulated it remained in power through the years in which it was to be operative but a combination of factors such as the rise in oil prices, the shortage of foreign exchange, inflation, and dissension within the Government made the Plan a non-starter.

The alternatives before the Jayewardene Government were to continue with the policies of welfare (and stagnation) or to chart an entirely new course of development and employment. As far back as 1948 in his Budget Speech Mr. Jayewardene said that "if the entire national income is distributed equitably among its population it would make beggars of us all." Today economists are agreed that there are limits to the distribution of income in poor countries and that "the poor must be brought into the mainstream of economic life through the creation of meaningful employment opportunities, not welfare programmes." (1)

Faced with the choice of development or subsidies the Jayewardene Government chose development. As the Minister of Finance and Planning Mr. Ronnie de Mel told a seminar of investors "We made our decision. We crossed the Rubicon." (2)

As is well known the present Government inherited a legacy of neglect, mismanagement, and corruption. President Jayewardene used striking imagery to describe the position in which the Government found itself when it assumed office. In his Convocation address to the University of Sri Lanka Mr. Jayewardene said "If the economy of Sri Lanka was destroyed by war, or natural phenomena, and my Government and I were entrusted with the task of rebuilding it, then building from scratch would have been easier than what we have to do today. We were saddled with an economy restrained, constricted, and brought to the verge of collapse". (3)

While Sri Lanka has become a case study in economic growth and development she also enjoys a social infrastructure of a much higher order than economic indicators would suggest.

Sri Lanka is often cited as a prime example of the Physical Quality of Life Index (PQLI) which is increasingly coming to be accepted as a more accurate measure of social progress and development than the Gross National Product.

Mr. James P. Grant, President of the Overseas Development Council, Washington, says Sri Lanka is a striking example of how misleading G.N.P. figures can be in that they do not include productive activities that do not come within the monetized economy and also do not take into consideration government financed services such as medical care and food stamps. Income data, he argues, are complicated by inflation. "Sri Lanka's record" says Grant "is a striking case in point; although its present life expectancy and infant mortality rates match those of the United States in 1940, they were achieved at a per capita income level below 200 dollars, i.e. well below today's income definition of absolute poverty". (4)

Even more recently the World Bank in its report for 1980 stated that Sri Lanka's record in life expectancy, literacy, and fertility (in relation to the low income level) was one of the best in the world. It noted that in the last two decades the country had spent nearly 10 per cent of its G.N.P. on education, health, and nutrition but posed the very pertinent question "To what extent were these achievements in human development at the expense of economic growth?." (5)

While the debate on the relative merits of the G.N.P. and the P.Q.L.I. continues, Sri Lanka itself, or rather its Central Bank, measures progress in terms of G.N.P.

1977 may well be regarded in future as a watershed in Sri Lanka's history and despite the change of Government in that year a "modest" growth rate of 4.4 per cent was recorded.

It was in 1978 that the impact of the new Government's policies began to be felt and the G.N.P. of 1978 estimated at Rs. 17,311 million showed a growth rate of 8.2 per cent which was over double the average for the preceding 10 years. As the Central Bank noted the "growth could be explained largely as a spontaneous reaction of a long-repressed economy to its liberalization by the new economic policies initiated in 1977." Even more heartening was the fact that growth which had previously been mainly in the agricultural sector took place on a broad front.

In 1979 there was a drop in the growth rate to 6.2 per cent but this was still higher than the planned growth rate of 6 per cent for 1979 and was far above the average for the seventies which was 3.2 per cent.

The growth rate for 1980 is expected to be 5.6 per cent and so in his Budget speech for 1981 Mr. de Mel was able to claim that the growth rates since 1978 have been "somewhat higher than we conservatively anticipated in our original projections taking both domestic and international factors into account." The overall performance would have been much better if not for the fact that agricultural output rose by only 2 per cent in 1979 and the estimate for 1980 was only 1.7 per cent.

There have inevitably been conflicting views on the progress recorded by the Government. Western observers who were earlier extremely enthusiastic have begun to show signs of disenchantment. In May 1980 *Insight* stated that "almost three years after the change in leadership the economy has yet to take-off," and on July 18, 1980 the *Financial Times* under the headline "Sri Lanka – an I.M.F. success story starts going wrong" said the investment strategy was "being knocked off course by a combination of rising oil prices, global recession, and more restrictive Western aid policies."

INFLATION

In the first half of the present Government's term of office inflation has emerged as the country's major problem. The hardships caused to individuals have been eased to some extent by repeated wage increases but it is the effect of inflation on the programmes of development such as the Public Sector Investment Programme – 1979 to 1983, that have caused most concern. In his Budget for 1981 Mr. de Mel said the Government had reached the stage where it could no longer "plan with certitude even for a year."

He also declared that "more governments fell by inflation than by lack of development."

The Five–Year Public Investment Programme was originally estimated to cost Rs. 47 billion but in his Budget for 1981 Mr. de Mel said the cost had increased to Rs. 120 billion and this despite the fact that there had been a scaling down of plans on World Bank recommendations early in 1980.

Mr. de Mel disclosed that while the Accelerated Mahaweli Scheme was originally estimated to cost Rs. 8 billion in 1977 the anticipated cost at the end of 1980 was Rs. 31 billion. "When we finish, even this estimate will no doubt be exceeded" he said. Some of the specific examples citied by the Minister were as follows.

		(Rs. Million) Original estimate		Revised estimate
Kotmale	–	1,800	–	8,000
Victoria	–	960	–	6,000
Maduru Oya	–	680	–	2,200
Housing	–	2,200	–	6,400

The Minister said the task facing the Government in raising resources on such a scale was "super–human". It was the last remark he made before the tea break. After tea the Minister announced that having "exhausted possibilities of raising additional revenue and borrowing from both local and foreign resources capital expenditure was to be reduced by Rs. 2,722 million in 16 Ministries. The biggest cut was Rs. 1,035 million in Mahaweli development and the second biggest was in housing where provision was slashed by Rs.624 million. The Minister had prepared Parliament and the nation for this rude awakening from the dreams of yesteryear with the lament that "Factors beyond our control will continue to determine our fate. We have no choice other than to accept them and to adjust to them even at great pain and expense."

EXPORTS AND IMPORTS

Despite several measures taken by the Government towards its aim of an export-oriented economy the last three years have seen a deterioration in the terms of trade and only export industries with very high import contents have shown improved performance. This is not in contradiction however of the fact that exports do not – and should not – be confined to local produce. The Minister of Trade and Shipping, Mr. Lalith Athulathmudali has repeatedly stressed that even re–export is export. "We import, add some value, and re–export. Adding one rupee and re–exporting would mean employment to another person" he said. (6) The most ambitious plan so far in this direction has been to import, blend and re–export blended teas which was being finalised at the end of 1980.

Among the Government's export promotion measures were the removal of export controls through licencing (except for 21 specified items); reduction or removal of several export duties, and the establishment of the Sri Lanka Export Credit Insurance Corporation, the Export Development Council of Ministers presided over by the President, and the Export Development Board in 1978.

The Sri Lanka Export Credit Insurance Corporation – SLECIC – was established in 1978 to insure exporters against non-receipt of payments from buyers. It also issues guarantees to banks to provide pre–shipment and post–shipment finance; issues guarantees on exports or performance to buyers abroad; helps in diversification of exports, and in location of new markets.

The Export Development Board Act adopted in May 1979 provided for an Export Development Council of Ministers, headed by the President to formulate and implement national development policies and programmes.

That these measures were inadequate was pointed out in a survey of credit facilities to the export sector undertaken by the Export Development Board which stated that "exhortations need to be accompanied by tangible evidence of the priority accorded to exports in national economic policy and providing adequate credit facilities on concessionary rates is one of the most effective means of doing so". Exporters in several Asian countries which are direct competitors enjoy much lower interest rates than are levied in Sri Lanka. (7)

At the end of 1980 a scheme to pay exporters outright grants from the Export Promotion Fund for improved performance in 1980 as compared with 1978/79 to exporters whose products consisted of over 60 per cent value–added exports was formulated. Arrangements were also made for concessionary Central Bank refinance to enable commercial banks to provide credit at concessionary interest rates to selected export industries which the Central Bank would re–finance upto eighty per cent.

The import liberalisation policy and the steep increases in petroleum products have however negatived many of the efforts of making the economy export-oriented and the last three years have witnessed a steady deterioration in the balance of trade.

The effect of the liberalisation of imports was felt only partially in 1978 because of the time lag between the opening of Letters of Credit and the actual arrival of goods, but there was still a substantial increase in the value of imports from Rs. 6,290 million (S.D.R 622 million) in 1977 to Rs. 15,350 million (S.D.R. 808) in 1978. Import of capital goods rose by 63 per cent; intermediate goods by 10 per cent, and consumer goods by just 6 per cent thus disproving the impression that the country had been flooded with consumer goods. Export earnings rose from Rs. 6,640 million (S.D.R. 651 million) in 1977 to Rs. 13,207 million (S.D.R. 675 million) in 1978.

It was only in 1979 that the real impact of the liberalisation of imports began to be felt. From a trade balance surplus of Rs. 631 million due largely to favourable prices of tea in 1977 the country had moved to a deficit of Rs. 1,480 million in 1978 and recorded a deficit of Rs.7,283 million in 1979. In S.D.R. terms the country's imports rose from 774 million in 1978 to 1,121 million in 1979 while export earnings rose from 674 million in 1978 to 750 million in 1979. Imports rose 45 per cent and exports rose only 13 per cent in this period. (8)

The Central Bank noted that the trade deficit of Rs. 7,283 million in 1979 was very high not only in absolute terms but also amounted to 48 per cent of export earnings. It was much higher than the 33 per cent recorded in 1969 when there was a large degree of liberalisation of imports, and the 34 per cent of 1975 when prices of export commodities fell.

The Central Bank in its comments on economic performance in 1979 describes the trade deficit as "fairly large" but goes on to observe that "it is quite usual for a developing country that receives development aid from abroad to experience large trade deficits for such aid enables the country to maintain the required level of imports which invariably is larger than the level that the country's own export earnings would permit " (9)

1980 witnessed an alarming deterioration in the trade deficit. As against a trade deficit of Rs. 7283 million (S.D.R. 362 million) in 1979 in the first half of 1980 the deficit was Rs. 7629 million (S.D.R. 369 million) or more than the entire deficit for 1979. The situation for the whole year will be considerably worse than even the figures for the first half of the year indicate.

While there were sharp increases in the price of oil, flour, sugar, and machinery, the volume and value of exports increased only marginally. The Minister of Finance saw two "reedeeming" features in this otherwise grim picture. The import data had not been adjusted for oil imports and imports had been mainly in intermediate and investment goods. "Any deliberate reduction in the volume of imports in response to higher prices would have been to the detriment of the development effort" Mr. de Mel said in his Budget for 1981. While the share of consumer goods imported declined from 38 per cent to 35 per cent in 1980 most of these imports were on essentials such as rice, flour, sugar, other foods, and textiles. All other consumer goods amounted to only Rs. 1,481 million or 6.5 per cent of total imports thus disproving once again the allegation that foreign exchange reserves were being squandered in the import of luxury items.

The extent to which increasing oil prices are aggravating the country's difficulties is seen in the fact that while expenditure on imports rose by 38 per cent in the first six months of 1980 the cost of petroleum imports rose by over 100 per cent. Petroleum imports accounted for 23 per cent of all imports in the first half of 1980 as against 17 per cent in 1979, and 16 per cent in 1978.

The overall picture is that the changes in exchange rates, various institutional and concessionary facilities for exports and the free availability of imported inputs for export industries have not resulted in the desired anticipated growth of exports.

The country's plantation commodities are beset with problems of their own, and the prospects are that the demand for them will either be stagnant or increase only marginally. Petroleum products and garments which have fared well have a very high import content and unless the country succeeds in re-exports such as the tea blending project the country will continue to be dependent on I.M.F. financing which would probably lead to I.M.F. requirements for further monetary reform.

A WEAK INFRASTRUCTURE

While the liberalisation of imports has enabled Sri Lanka to benefit from advances in technology the weakness in infrastructural facilities such as telecommunications, transport, postal services, water and even fire-fighting facilities are a disincentive to investment both by foreigners and nationals.

Of what use is it to Sri Lankans to be told that "We live in an era in which it is technologically possible for every thought, experience, and event to be transmitted, stored and retrieved" or that it is now possible "for every one to talk to everyone else, to obtain instant, and ample knowledge about all things, everything on earth" (10) when in this country the President complains that "When I want to get a telephone call, I do not get a reply." (11)

Many infrastructural weaknesses are dealt with elsewhere in this book but the utter inadequacy and inefficiency of telecommunications calls for special mention. At the annual meeting of the Ceylon Chamber of Commerce, Mr. C. P. de Silva said the losses being incurred through defective telecommunications would be "staggering if anyone were to compute them." Unfortunately these losses cannot be ascertained and therefore cannot be recorded. As Mr. de Silva said they do not figure in balance sheets and are easily lost sight of.

That the telephone equipment is old, almost antiquated, and unable to keep pace with the needs of a rapidly developing economy is understandable but inefficiency and callousness are often the cause of disruptive and expensive breakdowns. When 2,000 telephones went "dead" in the Pettah area in June 1980 the Telecommunication department claimed that this was due to the fact that underground telephone cables had been damaged by staff of the Waterworks department of the Colombo Municipal Council but the staff of the Telecommunication department themselves were the culprits when electric cables in the Dehiwala area were damaged by workmen of the Telecommunication department while laying cables. Both cases were spotlighted in the Press but no official action followed. (12)

Then again in September 1980 the building of Grindlays Bank and part of the adjoining Mackinnon building were ravaged by a fire which at one stage looked as if it could envelop almost the entire City area. Owing to to the low pressure in the mains water had actually to be transported from the habour in Navy bowsers. The Fire Brigade's equipment is also utterly inadequate to fight fires in the high rise buildings now coming up in the City.

COMPANIES AND BANKS

The framework of the commercial sector has remained unchanged in recent years, although committees have been appointed and there have been periodic reports of moves to modernise the existing Companies Ordinance.

It was Mr. de Mel himself who said "Your Company Law, Stock Exchange, and Share Market are as ancient as the hills" when he addressed the annual meeting of the Ceylon Chamber of Commerce on July 19, 1979. The history of company law in Sri Lanka goes back to 1853 when the first joint stock company was formed. English Company laws were applied here until 1861 when the Joint Stock Companies Ordinance was passed. Various subsequent amendments were consolidated in the Companies (Amendment) Act No. 15 of 1964 which remains the substantive legislation on the subject.

No legislation revising the company laws or the capital market had been introduced up to end of 1980.

The absence of unit trusts which I commented on in my earlier work still continues to be felt. In July 1980, Mr. N.U. Jayawardena, former

Governor of the Central Bank in a series of articles he contributed to the *Ceylon Daily News* drew attention to the fact that the share market in Sri Lanka lacks the support of unit trusts and investment companies of which there are just two. (13) The demand for shares which is extremely sluggish can be greatly stimulated by the formation of unit trusts which enable shareholders to spread their risks. Mr. Jayewardene said the State could play an effective role by the promotion of a National Unit Trust but the prospect of such action seems remote when even the overhaul of the Companies Ordinance has failed to materialise.

A SHOT IN THE ARM OF BANKING

Banking has been one sphere of activity in which the economy has been revitalised by the infusion of foreign capital and expertise. It may be premature to describe Sri Lanka as a leading financial centre in Asia as official spokesmen claim but it is a fact that while not a single foreign bank opened a branch in Sri Lanka between 1952 and 1977, 12 major foreign banks opened branches in Colombo between 1978 and 1980.

Initially new foreign banks were expected to bring in a capital of at least Rs. 10 million but this was later raised to Rs. 50 million – a ceiling that was fixed to curb inflationary trends and lending in non-priority areas. When some of the new banks proposed to pay interest on current accounts the Government intervened to veto the proposal.

While the long established foreign banks have responded to the challenges posed by the newcomers the same cannot be said of the two existing state banks.

When the Minister of Finance opened the branch of the Overseas Trust Bank at the Y.M.C.A. building in 1980 he said the foreign banks with their expertise and efficiency should jolt the two State commercial banks which had "gone to sleep" with no competition. (14) Despite a proliferation of branches which has taken place mainly in the rural areas and an increase in volumes of business transacted the quality of service offered by the Bank of Ceylon and the People's Bank has remained poor. The unofficial explanation at both banks is that they had no control over the calibre of the staff recruited under the last Government but there has been no perceptible improvement even after three years of the change of Government.

In terms of branch expansion 73 branches of banks were opened in 1979 of which 44 were by the Bank of Ceylon, and 25 by the People's Bank. While the total number of branches of the commercial banks was 810 at the end of 1979 the Bank of Ceylon down–graded 240 of its 390 Agricultural Service Centres for economic and security reasons. The Central Bank doubts whether these centres can now be regarded as bank branches at all.

The establishment of Foreign Currency Banking Units in May 1979 proved an immediate success and by the end of 1980, they had transactions amounting to over 100 million U.S. dollars with off-shore operations extending to Eastern Europe, the Gulf States, South East Asia, and the G.C.E.C. enterprises in Sri Lanka. F.C.B.U's deal in ten stipulated foreign currencies and with non-residents, approved residents, non-residents abroad and enterprises approved by the G.C.E.C. They perform most banking functions except savings or current accounts. F.C.B.U. accounts are exempt from tax and non-residents are permitted to remit profits or capital freely.

While an Indian bank had a portfolio of investments in the G.C.E.C. amounting to Rs. 225 million at the end of 1980 the new Middle East banks were attracting private investments from that region. Some of the Central Bank's own international reserves have been placed in the F.C.B.U's.

The National Development Bank which successive governments proposed to establish finally became a reality on October 1, 1979 with an authorised capital of Rs. 2 billion and a subscribed capital of Rs. 600 million. It has provided loans to both the public and private sector. The earliest beneficiaries were the Cement and Paper Corporations, the government–owned Ceylon Oxygen Company, a tourist hotel, and a leasing company.

The N.D.B. provides financial assistance to both government corporations and the private sector. The bank also negotiated a loan from the International Development Association for a Small and Medium Industries (S.M.I.) project. Of the credit line of 16 million U.S. dollars 12 millions were utilised for refinancing five participating credit institutions and the balance for upgrading the technical services of the S.M.I. sector.

In its first year the Bank had an investment portfolio of Rs. 250 million spread over 18 projects.

The National Development Bank and the Development Finance Corporation assisted in the formation of Sri Lanka's first leasing firm which was a significant step in the country's development strategies but such innovative changes have been too few and far between.

Another change in the institutional structure of banks took place on January 1, 1979 when the State Mortgage Bank and the Agricultural and Industrial Credit Corporation were merged to form the State Mortgage and Investment Bank. In its first year of operations the new venture earned a profit of over Rs. 4.2 million as compared with a total of Rs. 2.18 million made by both the S.M.B. and A.I.C.C. in 1978 – an increase of 97 per cent.

Bartleet, Mecklai & Roy Ltd., began business as money brokers on February 6, 1980 to facilitate inter–bank call–loan transactions and to assist F.C.B.U's in obtaining foreign financing and investment outlets. The Central Bank described the venture as "a major step taken towards the development of a money market in Sri Lanka."

No reference to banking can be complete without reference to the declining fortunes of the Sri Lanka rupee in relation to foreign currencies. The People's Bank recently observed that "It is now quite clear that gradual depreciation is being deliberately used as a corrective to the deteriorating trade and payments situation of the country. A part of the burden of adjustment is to be borne by the exchange rate. It is also quite clear that gradual depreciation in small doses is being preferred to an once-and-for-all official act of devaluation."

Between January and October 1980 the rupee depreciated 19 per cent against the pound; 12 per cent against the yen, and 16 per cent against the Indian rupee and the trend continued throughout the year. (15)

The Government's efforts to flush out "black money" through the issue of Bearer Bonds in the denomination of Rs. 5,000 with purchasers paying Rs. 4,750 have been as unsuccessful as all previous efforts such as amnesties and demonetization. In the first six months from May to October 1980 the total sale of bonds amounted to a mere Rs. 700,000.

The low rate of interest of 6 per cent and the long maturity period of 5 years, were the main reasons why Government's expectation of several hundred millions failed to materialise.

REFERENCES

1. The Poverty Curtain. Choices for the Third World.
   Dr. Mahbub Ul Haq (Columbia Univ. Press. 1976)
2. Ceylon Daily News. September 6, 1980.
3. Convocation Address. H. E. J. R. Jayewardene. May 31 1978
   (Dept. of Govt. Printing)
4. International Development Review. 1979/1.
5. Ceylon Daily News. August 18, 1980.
6. Ibid. June 20, 1980.
7. Ibid. October 29, 1980.
8. People's Bank Economic Review. May 1980.

REFERENCES (Contd.)

9. Central Bank Review of the Economy. 1979.

10. Horizons. (U. S. A.) No. 38.

11. Ceylon Daily News. September 1, 1980.

12. Ibid. May 14, and June 4, 1980.

13. Ibid. July 21, 1980.

14. Ceylon Daily Mirror. May 16, 1980.

15. People's Bank Economic Review. Sept/Oct. 1980.

Chapter 5

THE LEAD PROJECTS — Mahaweli, Greater Colombo Economic Commission & Urban Development

Success and failure – progress and setbacks – hopes fulfilled and hopes frustrated – all these and more are essential ingredients in the life of a nation as with individuals.

It is to the credit of the Jayewardene Government that in the formulation of what have become known as the three "lead" projects – the Accelerated Mahaweli Diversion Scheme, the Free Trade Zone, and the Urban Development Scheme it set out to achieve in half a dozen years far more than had been accomplished in three decades of independence.

Only the very naive, and the very optimistic, could have imagined that such vast schemes of development could be implemented without difficulties and disappointments. The Government and the people of Sri Lanka have had their share of both but much progress has been made. Sri Lanka is on the road to development and this chapter measures both the distances covered and the distances yet to be traversed in the "lead" projects (A survey of foreign investment outside the Investment Promotion Zone is also included in this chapter after the I.P.Z.)

THE ACCELERATED MAHAWELI DIVERSION SCHEME

"I can assure the people of this country that the entire foreign cost of the Accelerated Mahaweli Project has already been assured. In addition a large portion of the local cost component will also come in from abroad. All we need now is to make our own efforts to complete the job".

It was with these words that the Minister of Finance and Planning, Mr. Ronnie de Mel, assured the nation on May 29, 1978 that the dream of the Mahaweli Scheme was on the way to reality. Mr. de Mel had just returned to Sri Lanka from a world tour in the course of which he said he had actually turned down offers of assistance for the Mahaweli Scheme. He said "A large international banking organisation offered me two billion dollars (approximately Rs. 24,000 million) to meet the full cost of the Accelerated Mahaweli Project. This offer was more favourable than the terms normally offered by the World Bank. I turned it down because our intention is to get parts of the project completed on outright grants and others on loans on interest rates not exceeding ½ per cent to ¾ per cent".

Mr. de Mel then went on to outline who would do what, within two to three months. He said Britain would start field investigations on the Victoria Reservoir Project, Japan had taken over the Moragahakanda project, while Sweden had evinced interest in the Kotmale project. Germany was likely to take over work on the Randenigala project, while the U.S.A. would take over work on the network of canals and agricultural settlement schemes. Netherlands and a number of other countries were "waiting to come in to assist in the Mahaweli project which had won the imagination of the world ".(1)

Historically the Mahaweli Diversion Scheme began with the ancient Sinhalese kings who diverted the Mahaweli at several points. The Maduru Oya dam is being built on the same site on which an earthfilled dam one hundred feet in height and 300 feet long existed. It is considered a masterpiece of ancient hydro–engineering. Canals, dams and anicuts that figure prominently in the scheme were built by King Vasabha in 65 A.D., King Upasena in 368 A.D., King Mahasena in 475 A.D., and King Parakrama Bahu in 1153 A.D.

The magnitude of the Mahaweli scheme can be gauged from the fact that the river basin covers 4,000 square miles of the country's 25,000 square miles, while the river discharges 6.4 million acre feet of water into the sea which is about one fifth of the total discharge of all the rivers in Sri Lanka.

The immediate history of the project began with Sri Lanka's first Prime Minister, Mr. D.S. Senanayake, Mr. Dudley Senanayake, and Mr. C.P. de Silva, who as Minister of Lands, Irrigation and Power in Mr. Dudley Senanayake's Cabinet obtained assistance from the Food and Agricultural Organisation and U.N.D.P. to formulate a Master Plan which was completed in 1968 Under the Master Plan 900,000 acres (650,000 new and 250.000 existing) were to be irrigated over a 30 year period and the scheme was to have provided 507 M.W. of power in three phases over a 30 year period. At 1968 prices the cost of the entire scheme was estimated at Rs. 6,700 million.

Work on the first of the three phases began in 1970 with the construction of the Polgolla to Bowatenna diversion. A spillway was built at Polgolla and the headworks and tunnels were completed by 1976. A total of 5,444 families were settled on the new canals brought under completion.

The first production results of the Mahaweli Project were obtained from land brought under cultivation by the Polgolla-Bowatenna diversion. The Maha and Yala 1976/1977 seasons gave yields of about 80 bushels per acre and the capital cost of the Polgolla Complex of Rs. 390 million, or Rs. 3,000 per acre of the 130,000 acres, was recovered in the four seasons in 1976/77. Average yield in the Kalawewa stage 2 area was over 80 bushels per acre with some farmers obtaining yields of 100 - 130 bushels per acre. (2)

As refashioned by the present Government, the Accelerated Mahaweli scheme will bring under cultivation about 650,000 acres of new land, and provide water for another 250,000 acres of existing land. The scheme also provides for the construction of 5 reservoir headworks with an installed capacity of 500 M.W. within six years.

It is envisaged that 140,000 families would be settled within the irrigated areas. Farm employment would be provided for about 300,000 persons and indirect employment to about another 50,000 persons. The construction work would provide employment for about 200,000 persons.

Under the Maduru Oya Project a new dam will be built by 1982 on the spot where an ancient dam had been discovered. A tunnel is to link Maduru Oya Reservoir to the Ratkinda reservoir to which Mahaweli waters are to be brought to Ratkinda through a new canal to be built on the Minipe right bank. The Maduru Oya project would irrigate 125,000 acres, when augmented by the Victoria Reservoir. A power house with an installed capacity of 9.75 M.W. is also to be constructed. The Canadian Government is financing a substantial part of the project.

Victoria Project: A dam will be built above the Victoria falls. The water from the reservoir would be taken through a tunnel to generate hydro power. This is scheduled to be built in 1983 with power generation in 1984. Irrigation facilities would be provided for 60,000 acres in System C and supplement another 100,000 acres in System B. Hydro power escalation of 210 M.W. was to be installed with provision of another 210 M.W. to be installed later. Practically the entire costs are due to be met by the British Government.

Randenigala Project: Randenigala which lies between Victoria Falls and Minipe is to provide irrigation for 90,000 acres of new land, power, and flood control. It is scheduled to be completed in 1986. The Government of the Federal Republic of Germany is expected to finance this project.

Moragahakanda Project: A dam is to be built across the Amban Ganga the main tributary of the Mahaveli. The reservoir is to supplement the irrigation needs of 130,000 old and new lands mainly in area D and G. The project is due to be completed in 1986 with financial assistance from the Government of Japan.

Kotmale Project: A dam is to be built in the hills across the Kotmale Oya, which is a tributary of the Mahaweli and is .scheduled for completion in 1983. The Kotmale project is mainly for producing hydro-power.

The Government of Sweden is to provide financial assistance for the project.

Work on the Maduru Oya Project commenced in August 1978.

Design work and evaluation of the Victoria Project and preliminary investigations into the Randenigala and Moragahakande Projects were also undertaken in 1978 when expenditure on the entire scheme amounted to Rs. 490 million as compared with only Rs. 112 million in 1977. (3)

By 1979 the estimated cost of the Programme (excluding Moragahakande) had doubled to Rs. 22,550 million.

Expenditure in 1979 was about Rs. 729 million. During the year 5,041 families were settled in the Kalawewa region compared with 2,822 families in 1978.

11,096 hectares of new land were brought under cultivation as compared with 5,500 acres in the previous year.

In his November 1980 Budget speech the Minister of Finance matter of factly stated that the Mahaweli scheme had reached a stage where "the key headworks are at the point of construction."

He mentioned only three of the Projects. At Victoria work had commenced on the dam and tunnel, and tenders had been awarded for the power station building. Completion date was mid 1984 according to "present expectations."

At Maduru Oya tenders had been awarded and work had commenced on the construction of the reservoir headworks and link tunnel.

At Kotmale work on the dam had commenced in mid 1979 and was scheduled for completion in 1984.

With assistance from the World Bank the entire scheme was reviewed by Netherlands Engineering Consultants – N.E.D.E.C.O. – whose report was submitted to the Government in September, 1979.

N.E.D.E.C.O. endorsed the basic features of the Accelerated Mahaweli Programme but pointed out that in some essentials the scheme was unrealistically ambitious.

It said "Developing and settling 120,000 ha in five or six years implies an annual implementation speed of more than 20,000 ha and settlement of 140,000 persons a year. This is a very high rate and in fact it is impossible to find examples from other countries of the world where such rates of land development and settlement have been achieved over sustained periods."

N.E.D.E.C.O. suggested a gradual acceleration in the speed of implementation from 6,000 hectares of land in 1980 to 40,000 hectares by 1984.

The report stated that the Kotmale, Victoria, and Maduru Oya reservoirs would suffice for the country's power requirements until 1986 and that the waters of these three reservoirs would be adequate to irrigate the various systems under the Accelerated Progromme.

It suggested that the Randenigala project could meet power requirements after 1988.

N.E.D.E.C.O. expressed doubts about Sri Lanka's ability to provide the materials or manpower for "an undertaking of unprecedented scale complicated to a degree that would test the organisational skills of any country."

It endorsed the World Bank's warnings of the dangers of inflation. It estimated that while the greater portion of the capital cost would be from foreign donors Sri Lanka's own contribution would be 30 per cent of public sector investment, and restrict growth in other areas of the economy. (4)

The Government accepted the main recommendations of the N.E.D.E.C.O. team and decided to confine, Phase I to the Kotmale, Victoria, and Maduru Oya projects together with downstream works in link canals but a further scaling down of the whole project became necessary towards the end of 1980.

On the eve of the Budget the Cabinet spokesman, Mr. Anandatissa de Alwis said it had been decided that the Randenigala Project scheduled to be started in 1980 had been put off for one year and the height fo the Kotmale dam was to be reduced to cut down construction costs.

The programme for the entire scheme as envisaged in November 1980 was that the Victoria dam would be ready by 1984 and the Kotmale dam would be completed between 1983 and 1984.

In the first draft of the Estimates for 1981 the Mahaweli Development Ministry received the biggest single amount of Rs. 4,035 million but in his Budget speech the Minister announced what amounted to the biggest cut. The vote was slashed by 25 per cent to Rs. 3,000 million.

The aid provided by the foreign donors is proving inadequate and at the end of 1980 the U.K. Government which is financing the Victoria Project agreed to another loan of £ 20 million (Rs. 850 million) to meet the shortfall in the foreign exchange component of the Project. Unlike the original grant the supplementary aid is in the form of a loan repayable in 9½ years at 7½ per cent interest and of course the aid is tied to the purchase of equipment from U.K. firms. (5)

The overuse and wastage of water has been one of the main problems so far and a foreign consultant, Mr. Adrian Laycock, has gone to the extent of saying that the whole Mahaweli scheme will fail unless the problems of water mismanagement and slipshod construction are solved. "The scheme is designed for a theoratical water-use that does not materialise in practice. Unless usage rates can be drastically cut the total area cannot be developed." Mr. Denis Fernando, Director of Planning, at the Ministry of Mahaweli Development has said he understands Mr. Laycock's criticisms but feels that the problems are not insurmountable. "We do have a problem of water overuse" he was quoted as saying "but we will train the farmers to use 50 per cent less. If they fully understand the social implication of using less water they will not abuse the system." (6)

Water mismanagement is a problem that is centuries old but has defied solution, although there has been no lack of attention to it.

In urging a water reforms programme in 1975 the People's Bank noted that in the 12 districts of the dry zone which produce 60 per cent of the country's output of rice, water is more scarce than land but water provided to farmers was used extravagantly and wastefully. In the Maha season twice as much water as needed was used and water was wasted in the Yala season as well. The Bank survey noted that while wastage took place through farmers they were not entirely responsible as there were also "institutional and techno-bureaucratic deficiencies." (7)

The water management problem has also assumed serious proportions in the Walawe project.

A survey carried out by the Land Use division of the Irrigation Department showed that cultivators in Uda Walawe were using two and a half times the required amount of water. "The fault is not the farmers" said Dr. W.D. Joshua, Project-Director of the Farm Water Management Project. " The farmers are ignorant of water management techniques. They are just following the traditional methods" he said. (8)

Attempts are now being made to organise farmers into groups at the field channel level to facilitate channel maintenance and ensure an equitable distribution without wastage. Farmer education in water management is one of the key features of the U.S. Aid. water management projects.

At a recent seminar on mobilisation of local resources for irrigation the Minister of Lands and Land Development, Mr. Gamini Dissanayake referring to the proposed Water Resources Act said that every government had been obsessed by the desire to provide more and more irrigation facilities and more and more land to farmers but in a "Hamlet without the Prince" situation farmers were ignored in management and organisational problems. "The top-down approach" he said contained "a mix of arrogance leading to an assertion that farmers are generally ignorant and that their judgements are either unrealistic or unacceptable." (9)

While the Government, foreign donor countries and aid agencies have been concentrating energy and resources on the Mahaweli Project there are about 10,000 small tanks or reservoirs which need only re-construction or renovation. M. P.'s representing rural constituencies have urged at meetings of the Government Parliamentary Group that production of paddy and other crops could be raised considerably if these tanks are rehabilitated.

It has been estimated that 251,000 acres of land can be made productive if plans to restore 7,406 tanks identified as in need of repair can be repaired and maintained.

The distinguished economist, Thomas Balogh, had countries like Sri Lanka in mind when he commented on the neglect of the value of small hydrological works but Balogh's comments were in respect of the construction of small tanks and canals. In Sri Lanka the problems are only restoration and maintenance. Such small works wrote Balogh "are unglamourous. Their construction is difficult to organise. They need real zeal and leadership qualities of a very high order. Anybody who has been through the process of trying to persuade peasants to collaborate in small hydrological works must know how difficult it is to get action." (10)

"If we can tackle the Mahaweli Project there is no reason why we cannot put minor irrigation tanks in order" said President Jayewardene early in 1980, (11) but despite several highly publicised "crash" programmes very little progress has been made in utilising the potential of neglected village tanks.

The choice of settlers for colonisation and their future prospects are among other crucial aspects of the Mahaweli scheme.

The experience of the Gal Oya Project shows that mistakes have been made in the past. The Gal Oya Project Evaluation Committee stated that colonies consisted of "an amalgam of landless peasants with large families, those rendered homeless by natural disasters, fisherfolk in search of a new life, the odd undesirable exiled from his village, and more diverse types." No attempt was made to judge the agricultural skills or other aptitudes necessary to establish a viable community. (12)

The selection of colonists is being carried out with extreme care by the Mahaweli Authority as delicate socio-economic factors ranging from age, to caste, have to be considered in the settlement of colonists in various areas.

The authorities have also to strike a balance between being over-generous in the provision of facilities and the opposite extreme of placing too much emphasis on self-reliance. The view of successive Land Commissioners has been that generally governments tend towards paternalism which leads to the State having to play "a paternalistic role indefinitely."

On the other hand the results of studies already conducted in the Kalawewa area show that the "pioneers" have not done as well as expected in the "Promised Land."

There have been newspaper "sunshine" stories of colonists earning Rs. 32,000 annually. (13) If this is universal, and not exceptional, there would be an exodus from other parts of the country to Kalawewa. As against the cursory and superficial findings of journalists there have been in-depth studies by State organisations such as the A.R.T.I. and the People's Bank.

Field investigators of the People's Bank who studied conditions in the area H 1 found that settlers were experiencing hardships and this was borne out by an analysis of expenditure which showed very high percentages on food and clothing. There were cases of settlers who had pawned jewellery and parted with personal belongings such as radios and cycles which were given as surety for loans.

Of 197 families surveyed only 36.1 per cent reported annual incomes over Rs. 2,000. 26.6 reported incomes between Rs. 1,000 and Rs. 2,000, and as much as 38.3 per cent reported incomes of under Rs. 1,000 annually. So much for Sri Lanka's *El Dorado.*

The main sources of income were self-employment in agriculture (62.9

per cent) and labour in agriculture or construction work (25 per cent).

While incomes are generally under-stated in such surveys the investigators found that many families actually managed to subsist only on rations of milk, sugar, flour and dhal provided under the World Food Programme. The monetary value of home or garden produce used for personal consumption was not included in the income classifications.

Two other factors, also contributed to the generally depressing picture. The average family size of the 197 families was 6 which almost corresponds with the national average and 46.9 per cent of the settlers were children under 15. On the assumption that all males and females between the ages of 15 and 60 were able to work this still meant that one half of the settlers had to support the other half. The role of pioneers is always difficult and in this particular case the effects of a drought that had prevailed earlier were still being felt but the results of this survey showed that a great deal more remains to be done to ease the burdens of colonists in the scheme. (14)

The Accelerated Mahaweli Diversion Scheme is the largest this country has undertaken and by Sri Lankan standards (in terms of size, money, manpower, etc.) its dimensions are certainly spectacular but some of the claims made about it are wildly exaggerated and misleading. The best corrective in this connexion so far has come from none other than the Minister of Finance and Planning, Mr. de Mel himself. In an address to the Institution of Engineers in October 1980 Mr. de Mel in rather terse language said "I have just come from Brazil. I have seen the construction of their Itaipu dam across the Parar River. 12,000 megawatts 60 times Kotmale and Victoria, 10 billion dollars. Everything done by Brazilian and Paraguayan engineers. Everything fabricated in Brazil. Even the giant turbines. We have much to learn from other Third World countries." (15)

THE FREE TRADE ZONE

The Investment Promotion Zone at Katunayake is the most dramatic manifestation of development after the Jayewardene Government assumed office in July 1977.

On January 1, 1978 it was just an expanse of coconut cultivation adjacent to Colombo International Airport. Then the clearing of the site began and by July 1978 the first foundation for a factory was laid. Five months later L.M.K. Garment Factory of Hongkong opened their 70,000 square foot factory. By March 1979 the firm was making its first exports.

Just how smooth, fast, and successful the "take-off" was, is also seen in the fact that by January 1, 1980, only 2 years after zero 14 factories were in production and providing employment to 6,000 Sri Lankans. (16)

The incentives offered to investors in the Investment Promotion Zone can be summarised on these lines :–

A single competent authority to deal with all applications for investment in the Greater Colombo Economic Commission.

A tax holiday period of ten years for investment and foreign personnel.

Further concessionary tax periods of up to 15 years in which only a tax of 2 - 5 per cent will be levied.

One hundred per cent foreign ownership permitted with no requirement of any change of ownership.

No tax on transfer of capital returns, and proceeds of liquidation.

Duty free imports of machinery and raw materials.

Security of investment guaranteed in the Constitution.

Labour reserve of 600,000 men and women, skilled, or trainable at relatively low wages.

In addition investment protection pacts have been signed with the U.S.A., U.K., and West Germany guaranteeing repatriation of capital and dividends and also the payment of compensation in the event of acquisition. Sri Lanka is a signatory to the 1965 Convention on Settlement of Investment Disputes.

While infrastructural facilities throughout the island are weak special arrangements have been made within the Zone particularly in telecommunications, when direct dialing to most countries was provided in July 1980 and in transport links between the port of Colombo and the Zone.

"I don't see what more an investor could want than Sri Lanka has to offer" said Mr. George W. Ball, former U.S. Under-Secretary of State, now senior Managing Director of Lehman Bros., Kuhn Loeb Inc. at a G.C.E.C., sponsored seminar in New York. (17)

The I.P.Z. at Katunayake is about 500 acres in extent. Phase I covers the development of 300 acres and Phase II envisages the development of the balance 200 acres. Initially land was made available to investors on 99 year leases on payment of Rs. 300,000 per acre (a once and for all payment) and ground rent at Rs. 8,000 per acre per annum. With the escalation in land values the G.C.E.C. decided in September, 1980 to increase the down payment to Rs. 600,000 per acre and increased ground rent from Rs. 8,000 per acre per annum to Rs. 24,000. (18)

The speed (for Sri Lanka) with which foreign firms established themselves and started exports is best illustrated by the case of L.M.K. Garments Factory of Hongkong. It signed an agreement with the G.C.E.C. to set up a factory on June 29, 1978. On March 13, 1979 the firm exported its first consignment of shirts worth 30,000 dollars to the U.S.A. Exports of shirts and jeans for the whole of 1979 brought in 2,600,000 U.S. dollars. The firm which was originally known as L.M.K. Browns (Ceylon) Ltd. became known as L.M.K. (Ceylon) Ltd. after it purchased 75 per cent of the shares held by Brown & Co. Ltd.

In eighteen months the number of factories exporting goods was 19 and their total exports in this period amounted to Rs. 453 million. The chief exports were garments, cashew kernels and oil, cotton gloves, cut and polished gems, rubber latex thread, fishing gear andaccessories,and teabags.

At the end of 1980, 130 projects had been approved representing an investment of over Rs. 4,000 million. 23 factories were in production and the employment generated was in the region of 9,000. 19 more factories were in various stages of completion.

The agreement between the G.C.E.C. and Motorola, a U.S. electronic multi-national in October 1980 heralded, it is hoped, the arrival of more electronic manufacturers to Sri Lanka. "Political stability is number one on our list wherever we go" said Mr. Weldon D. Douglas, a Vice-President of Motorola.

Motorola was the first large multi-national to enter the zone and its factory is the first in Phase 2 of the Zone's activities. Its investment of Rs. 380 million (22 million U.S. dollars) was the largest single private sector commitment so far. Motorola has a locally incorporated wholly owned subsidiary and test production of semi-conductor electronic devices is expected to begin in the last quarter of 1981. (19)

The second I.P.Z. is due to be established at Biyagama (Kelaniya) on a 450 acre site for heavy water consuming industries, while a third will be sited at Welisara. Among industries slated for production at Biyagama are high pressure P.V.C. pipes, dyes, textiles, chemicals, rubber industries, paper, tanneries, metal products, non-metallic minerals, wood cane, and electronics.

Soaring construction costs and the costs of development of infrastructure facilities were causing concern at the end of 1980.

Following the passage of amending legislation (with no opposition) in October 1980 to enable the G.C.E.C. to declare any area in Sri Lanka a licensed zone, Boosa may become the first I.P.Z. outside the G.C.E.C's 160 square mile area of authority north of Colombo which includes the I.P.Z. at Katunayake and the proposed Biyagama I.P.Z.

The myth of the "lazy native" dies hard (particularly among the natives of each country) but the I.P.Z. has shown that the Sri Lankan worker is better than his counterparts in all other Asian countries except Singapore. In a table of relative productivity of Asian workers the Singaporeans ranked first with 46.98, Sri Lanka was second with 41.84, the Philippines third with 41.35, and Taiwan fourth with 34.03, the South Koreans were eighth with 20.85 and Indians last with 11.72. (20)

Sri Lankan labour is both efficient and cheap (by international standards) costing just one U S dollar per day for unskilled work or two dollars for skilled work. *Business America* said the availability of low cost educated labour made Sri Lanka "a natural successor to such export centres as Singapore and Hongkong where labour costs are rising rapidly."

Naturally some firms pay more than others . One multinational pays skilled workers 130 dollars monthly inclusive of overtime and bonuses.

In a tribute to the efficiency of Sri Lankan workers, D.T.S. Yan, Manager of Austin Gloves, said his workers had mastered new techniques faster than workers in Hongkong. They were producing gloves at the rate of 1,000 pairs a day while girls in Hongkong with three years of experience were producing 840 pairs a day. (21)

By the end of 1980 about 9,000 persons were employed in the I.P.Z. and this by comparison with some other zones was satisfactory.

The world's first F.T.Z. at Shannon in 1958 provided employment for 7,000 after three years of operations and the Bataan Zone in the Philippines opened in 1972 provided employment for only 4,000 after three years.

The majority of the jobs at Katunayake have been filled by women.

At the last count in August 1980,90 per cent of 7,943 employees were women. (22)

Although a total of 25 countries had invested in the Zone in its first two years of operations, Hongkong was the main source of finance with a heavy concentration on the garment industry that led to a ban in 1980 on any more such ventures.

The Middle East, Western Europe, the U.S.A., India, South Korea, Singapore, and Australia are other regions and countries which have provided finance. In almost every case investment has been in the form of joint ventures with Sri Lankan collaboration.

India's Birla group which will make garments and France's Kleber Colombes which will make earthmover types are among the big names that have added sparkle to the success story of the Katunayake I.P.Z. which the U. S. Business magazine *Forbes* called "a mini miracle."

One of the criticisms made of the F.T.Z. is that garment manufacturers in the Far East, particularly Hongkong, used it as a back-door for entry to the U.S. market. In May 1980 the U.S. placed restrictions on imports from Sri Lanka.

It then became necessary for the Sri Lanka Government to allocate quotas for manufacturers within the Zone and those outside it who were pioneers in exports from the mid fifties.

While exporters outside the Zone complained that I.P.Z. exporters had been given preferential treatment I.P.Z. exporters pointed out that they had only commenced exports in March 1979 and that their quotas had been based on less than a year's performance.

The Ministry of Trade reacting to threats by garment manufacturers outside the Zone that they would retrench staff showed that these exporters had been given the privilege of exporting their goods to E.E.C. countries, Scandanavian countries, and Canada in addition to 49 per cent of the U.S. market. It also stated that manufacturers outside the I.P.Z. had not fully utilized the quotas allocated to them for 1979.

The position has continued to deteriorate and in July 1980 Britain too placed new restrictions on imports of Asian textiles.

Outside the I.P.Z. many garment manufacturers are working at half the rate at which they did before the Zone was established. Within the Zone many factories are working only a single shift and the next few years may well be critical.

FOREIGN INVESTMENT.

The incentives offered to investors outside the I.P.Z. are as attractive as those to establishments within the Zone.

In brief they are as follows :–

Export-oriented industries are allowed a five year tax holiday and rebates in customs duties on imports of raw materials.

New quoted public companies operating tourist hotels are eligible for ten year tax holidays if the equity capital is not less than Rs. 100 million. Other hotels are eligible for a five year tax holiday.

Firms undertaking the construction and sale of houses and flats are exempt from income tax on profits depending on the floor area.

Firms engaged solely in property development are entitled to a ten year tax holiday.

New companies engaged in contracts under the Mahaweli Scheme enjoy a five year tax holiday.

Quoted public companies engaged in import substitution or pioneering industries enjoy a five year tax holiday.

Profits from the export of gems or entrepot trade are exempt from income tax.

There were official declarations on foreign investment spelling out incentives and inducements in White Papers in 1955, 1967, and 1972 but that period only witnessed a net outflow of foreign capital. The policy declarations in that period did not contain any guarantees regarding repatriation of capital or interest, or against expropriation without compensation.

From 1970 to 1975 the portfolio of Finance was held by Dr. N.M. Perera the leader of the Trotskyite Lanka Sama Samaja Party and this gave the entire administration a Communist image overseas. When Mr. Felix Bandaranaike became Minister of Finance in 1975 after the Trotskyite Ministers had been removed from office he adopted a pragmatic attitude towards foreign investment.

In his 1976 Budget Speech he said "If I am faced with the choice between not having a factory because it comes from a source that is tainted only in an ideological sense, and of denying employment to perhaps a few thousand persons in our country who are crying out for employment, I think I would be taking the wrong choice if I were for reasons of ideology to deny our people such an opportunity."

Mrs. Bandaranaike's Government had a Foreign Investment Law which contained specific guarantees to foreign investors when it was defeated in the general elections of 1977.

The present Government has gone further by providing Constitutional guarantees on the security of investments.

Section 157 of the new Constitution is as follows. "157. Where Parliament by resolution passed by not less than two-thirds of the whole number of Members of Parliament (including those not present) voting in its favour, approves as being essential for the development of the national economy, any Treaty or Agreement between the Government of Sri Lanka and the Government of any foreign State for the promotion and protection of the investments in Sri Lanka of such foreign State, its nationals, or of corporations, companies and other associations incorporated or constituted under its laws, such Treaty or Agreement shall have the force of law in Sri Lanka, and otherwise than in the interests of national security no written law shall be enacted or made, and no executive or administrative action shall be taken in contravention of the provisions of such Treaty or Agreement."

Sri Lanka is also a signatory to the 1965 Convention on Settlement of Investment Disputes between States and nationals of States.

Originally investments outside the I.P.Z. were in joint ventures where the majority share in equity was held by the Sri Lankan partners. The exceptions were luxury hotels of over 200 rooms and construction projects under the Mahaweli Development Scheme where foreign holdings could go up to 60 per cent. While the general rule was 51 per cent for the Sri Lankans and 49 for foreigners the maximum holding for foreigners was limited to 25 per cent in the case of the garment industry.

In August last year the Foreign Investment Advisory Committee began to permit foreign investors to hold a majority of shares in any project on a case-by-case basis where high capital outlays were involved. (23)

The lifting of restraints was necessitated by the fact that with savings banks offering 20 per cent interest annually local capital remains in short supply.

The growth of foreign investment between the last two years of Mrs. Bandaranaike's Government and the first two full years after the Jayewardene Government is reflected in the following statistics :–

Year	No. of projects approved by FIAC	Investment Local	Foreign	Total	Increase as a percentage
1976	42	43.8	68.7m.	112.5m.	––
1977	22	59.9	68.1m.	128.0m.	13.78
1978	33	117.1	78.2m.	195.3m.	52.58
1979	113	851.5	1,213 m.	2065.4m.	957.55

The number of projects approved is of course smaller than the total number of applications processed. In 1979 for example there were 150 applications of which 113 were approved. (24)

Country-wise Britain was the largest single investor participating in 19 of the 113 projects approved in 1979.

Britain's Minister of State for Trade Mr. Cecil Parkinson, described Sri Lanka as being "an excellent example of how a developing country with a sound political base which recognises the importance of private investors and has a clear set of rules for those investors so that they know exactly where they stand" when he spoke at a G.C.E.C. seminar in

London. (25)

After Britain came Hongkong (13), Japan (10), U.S.A. (9), Singapore (8), West Germany (7), Australia (7), Netherlands (5) and several other countries.

Outside the I.P.Z. too there has been a high percentage of garment based industries. 30 of the 113 investment projects approved in 1979 were for the manufacture of garments but with the industry experiencing difficulties in overseas marketing there were indications in 1980 that some of these projects may not materialise. A survey conducted in March 1980 showed that while 85 projects were under way the 26 in which no progress had been made were in the garment industry or civil engineering.

In the first half of 1980, 66 projects with an investment commitment of Rs. 2.1 billion were approved by F.I.A.C. of which Rs. 1.5 billion will be in foreign capital and Rs. 0.6 billion in local capital.

According to a project classification, tourist projects with 14 were the biggest group followed by manufacturing industries 12, and agriculture, food and beverages 11. Only 3 of the projects were for the manufacture of garments.

In 1980 F.I.A.C. received an average of 20 project proposals monthly of which about 15 received approval. It was estimated in September that by the end of 1980 about 150 projects representing an investment of Rs. 4 billion, or almost double total investment in 1979 would have been approved.

There was a marked drop in the number of new projects for garment industries with increases in investment in agriculture, food and beverages, tourism, manufacturing industries and construction.

Singaporean investors have found Sri Lanka an ideal base for labour intensive industries leaving them room for expansion in high technology operations and under an agreement signed in October 1980 the two countries have guaranteed most-favoured nation treatment for each others investments. The visits of Sri Lanka's President and Prime Minister to Singapore and the visits to Sri Lanka by Singapore's Prime Minister and Deputy Prime Minister have underscored the particularly harmonious relations between the two countries after the Jayewardene Government assumed office.

Singapore's biggest investment in Sri Lanka, the Prima Flour Milling Complex is a striking example of the speed and dynamism which characterise the islanders of Singapore.

Here as in the case of the I.P.Z. the landscape has changed dramatically.

The site of the complex at China Bay was barren shrub in December 1977 and less than three years later President Jayewardene opened the 14 storeyed complex equipped with the latest equipment for converting 1,850 tons of wheat each day into flour of the finest quality. The capital cost estimated at 30 million U.S. dollars in September 1977 when the contract was signed had increased to 46 million U.S. dollars on completion of the work.

While average consumption of flour in Sri Lanka is estimated at 600,000 tons annually the capacity of the State Flour Milling Corporation will be only 100,000 tons even after a modernisation programme now in progress is completed. Prima will thus produce the balance five sixthsof the Island's requirements. Under terms which are extremely favourable to Sri Lanka Prima will mill flour exclusively for the Government of Sri Lanka and the entire plant is to be gifted to Sri Lanka after 20 years of operation. While 1,400 Sri Lankans were employed in the construction of the mill, 700 Sri Lankans are employed in the operation of the mill.

While Singapore Airlines has given Air Lanka both an aura and reality of success which Air Ceylon never enjoyed Singaporean construction firms are helping to solve the housing problem again at a pace that has never been known in this country. In the industrial field Singaporean firms are collaborating with Sri Lankans in sewing thread, engineering, textiles, garments, motor leasing and jewellery.

In 1979 over three quarters of foreign investment in Asia was by Japan which displaced the U.S.A. even in Taiwan two years earlier and at the end of 1980 Japanese investors showed even greater interest in Sri Lanka than in the two preceding years. Orient Leasing Co., a Japanese multi-national holds 30 per cent of the equity in the first leasing company set up in Sri Lanka with participation by a number of State financial institutions and private firms in July 1980.

The visit of a Sri Lankan business team to Japan with the Minister of Trade and Shipping as leader of the delegation in May 1979 was followed by the visit of a team of Japanese investors to Sri Lanka in November 1980 and 12 joint venture projects are scheduled to be undertaken in 1981.

One of the problems of foreign participation in investment in Sri Lanka is the difficulty of finding local collaborators with sufficient capital to participate in joint ventures.

While Government has offered incentives in taxation to ensure the broad-basing of equity in both public and private companies there is a shortage of funds for investment owing to the 20 per cent annual rate of interest offered by the National Savings Bank and the even higher rates offered by finance companies.

With the entry of new multi-nationals in addition to those already operating in Sri Lanka the Government has taken, and is taking action to prevent deleterious side-effects.

One of the criticisms against multi-nationals is that they use Third World countries like Sri Lanka as dumping grounds for goods and products banned as harmful in the West.

A more serious danger which a Cabinet sub-committee investigated is that multi-nationals could gain a strangehold not only over the local market but could also put national enterprises out of business with their larger and vaster organisational, management, and financial resources. A particular case which the Cabinet sub-committee discussed was that of a multi-national producing footwear. It was decided that this particular concern would be directed to ensure that any future expansion of output should be for export only.

Overall control of multinationals, the prevention of monopolies, mergers, and other anti-competitive practices will be embodied in legislation which was approved in principle by the Cabinet early in December, 1980. (26)

There is also the danger of multi-nationals, subverting nationals through illegal pay-offs or gratifications.

The Minister of Shipping and Trade, Mr. Lalith Athulathmudali told a seminar on business opportunities in Sri Lanka that under a law to be introduced in Parliament all agents and others who receive commissions on deals would be compelled to register themselves with an authority established under the Ministry of Trade. (27)

The Minister of Trade said the public service in Sri Lanka had "a good disciplined tradition."

The entry of multi-nationals into the economy of the country does however call for continuing vigilance and scrutiny. As far back as 1975 Senator Frank Church said multi-national corporations had reached a size, and accumulated such capital that it exceeded the ability of any national government to control them, while in many countries they exerted great influence on government policy.

URBAN DEVELOPMENT

"The old Paris no longer exists and the new Paris has not yet been born" wrote Victor Hugo in *Les Miserables.* Colombo today is very much in the same position. In a city where time stood still and the static hands of the Clock Tower symbolised both the mood and the lack of momentum there is a stir and hum of activity that seasoned city dwellers find difficult to comprehend.

On July 9, 1980 the acting Minister of Finance, Mr. M. H. Naina Marikar, in answer to a question said that 140 multi-storeyed buildings were being constructed along the Galle Road from Galle Face to Mount Lavinia. And what is happening along the Galle Road is being re-enacted elsewhere in Colombo, and in towns and villages throughout the country.

With the subject of housing being under the personal supervision of the Prime Minister, Mr. R. Premadasa, plans were formulated for the construction of 100,000 units. Of this 50,000 were to be constructed on an aided self–help basis; 36,000 houses were to be constructed directly by the Government, and 14,000 through loans provided by the Government.

In housing, as in all other development activities, estimates of costs proved illusive. The original cost of the housing programme estimated at Rs. 2.7 billion soared to an estimated Rs. 8 billion in 1980 with inflationary trends being fuelled by the very construction boom or wave which the housing programme itself generated.

The plans of the Urban Development Authority are projected thirty years into the future. There have been plans before – the *Geddes Plan* formulated by Sir Patrick Geddes in 1920; the *Holliday Plan* formulated by Professor Clifford Holliday in 1940; the *Abercombie Plan* drafted by Sir Patrick Abercombie in 1950; and various plans of the Department of Town and Country Planning – and now the Master Plan Project of 1978. The Plan states that "The rebuilding of central Colombo is an important element both in the Government's economic programme and in projecting a new image for Colombo and for Sri Lanka."

Under the Plan the Fort, Galle Face, Pettah, and Hulftsdorp areas are to be restructured into six areas - Echelon Centre, Lotus Centre, Marine Drive, Kachcheri Road, Fish Market, and the Courts.

The Urban Development Authority established in 1978 and the National Housing Development Authority established in 1979 are the main agencies and enjoy powers, including the right of compulsory acquisition, which are much wider than those of other comparable organisations. Under the present Government for the first time the Prime Minister is Minister of Local Government, Housing, and Construction. In addition, the President has taken a personal interest in the Sri Jayawardenepura – Kotte project which includes the building of a new Parliamentary Complex. Construction work which began with reclamation of land in 1979 has been geared to a tight schedule which is being maintained to ensure that the new Parliament will be ready on February 4, 1982 – a target date that will definitely be kept judging by progress made up to the end of 1980.

The U.D.A. and N.D.H.A. have functioned with drive and zest but unfortunately the costs of housing have soared to heights where the N.D.H.A. housing schemes are quite literally for millionaires only. Applicants for modest apartments to be constructed at the Bambalapitiya Station Road Marine Drive were informed by the Chairman of the N.D.H.A. that "due to factors beyond our control" flats of 1,200 square feet would cost Rs. 1,450,000. Applicants were also told that "preference will be given to those willing to pay the full tentative purchase price in a lump sum, within 30 days of being noticed to do so." (28)

The cost of land is one of the major constraints in housing. Land values reached a peak in 1969 in the last year of Mr. Dudley Senanayake's U.N.P. Government but dropped in early seventies with the tightening of rent control, land reforms, introduction of capital levy, and ceiling on house ownership. Land values have appreciated every month after the present Government assumed office with the influx of foreign investors.

Land values in Sri Lanka, and particularly in Colombo, have still not reached the dizzy heights or prices claimed and paid in Singapore, or Hongkong, but Colombo is certainly catching up. In Singapore a bungalow in a fashionable business district was sold in June 1980 for 100 million Singapore dollars, or 45 million U.S. dollars (Rs. 810 million in Sri Lanka rupees according to December 1980 parities). (29)

Costs in Hongkong are even more staggering. In mid 1980 a syndicate of four firms bought a site of 34,596 square feet (3,214 square metres) for 908 million H.K. dollars or 182 million U.S. dollars. (Rs. 3,276 million in Sri Lanka rupees). (30) The entire vote of the Ministry of Local Government, Housing and Construction for 1981 is Rs. 1,880 million.

Despite the importance and priority allocated to housing and urban development as one of the three lead projects of the Government the State's own contribution to these projects was not as high as may have been expected. In the *Public Investment Programme 1979–1983* the total allocation from government funds for housing, water supply and urban development was Rs. 5,275 million. The urban development allocation was Rs. 1,320 million about half of which was for the Sri Jayawardenepura – Kotte project. Housing construction projects were allocated Rs. 2,685 million of which the National Housing Development Authority was to receive Rs. 300 million.

A People's Bank study revealed that about 60 – 70 per cent of the total demand for finances would have to come from the banks assuming that the private sector would provide about 15 – 20 per cent of the funds. The State banks had their own building projects to finance and apart from being very "liquidity conscious preferred short-term lending to medium or long-term financing. (31)

Housing like the Investment Promotion Zone, figures for the first time as a sub-head in a chapter in the Central Bank's *Review of the Economy* for 1979. The inclusion of the I.P.Z. as the last item in the chapter on "Industry" can be justified on the grounds that the achievements in the "take–off" year of 1978 did not merit special attention but housing is one of Sri Lanka's oldest problems. It is the subject of the last item in the chapter on "Economic and Social Overheads" and its belated inclusion in the *Review* is presumably due to the fact that no earlier government gave housing as high a priority as the Jayewardene Government Under Mrs. Bandaranaike's Government from 1970 to 1977 construction of houses was minimal owing to restrictions on the size of new units in terms of floor space, and the Ceiling on Housing Property Act of 1973 under which no individual could own more than two houses.

The *Review* noted that in addition to its "already ambitious" programme of construction of 100,000 housing units the Government added new components by way of the model village development scheme, and the Urban Development Authority plans for the development of a new capital city at Kotte.

It observed that "the unprecedented demand for construction material, land, and labour resulted in a dramatic escalation of the prices of these items" and yet performance was impressive. The rate of growth in construction which had been 10 per cent in 1977, rose to 26 per cent in 1978 and dropped somewhat to 21 per cent in 1979.

The escalation of prices for land and building material, and in the costs of labour were a greater constraint on the construction of private houses rather than on larger projects for flats, offices, shops, stores, etc. and in the Accelerated Mahaweli Scheme in 1979 but in 1980 even the major scheme had to be curtailed.

The *Review* noted that the construction boom had its inevitable effect in accentuating inflationary pressures and that if progress in the housing programme is to be maintained it will have to be at the expense of other construction programmes.

By June 1980 the National Housing Development Authority had completed 5070 units under the Direct Construction Programme and work was in progress in respect of another 16,750 units.

Under the Aided Self–Help Programme 2,141 units had been completed and work was in progress in respect of another 15,261 units.

Under the Model Villages Programme 3,708 units were completed in 57 model villages and work was in progress on 3,7739 units.

Under the Electoral Programme 5,880 units had been completed while work had commenced on 695 quarters for public servants.

Work had also begun on the construction of 3,541 units at three large housing schemes at Seeduwa, Kottawa, and Crow Island. (32)

The only statistical data of "Progress" provided in the *Review* is that of the target of 50,000 units under Aided Self–Help Programmes 13, 197 were under construction on December 31, 1979. No statistics were available in respect of the U.D.A.'s direct construction programme; building of National Housing programmes such as low–cost housing, or the schemes to re–settle shanty dwellers.

More light on the "achievements" was shed by the Minister of Finance and Planning in his Budget Speech for 1981 on November 5, 1980 when he reviewed progress up to June, 1980.

While the Minister naturally could not go into details it is worth noting that the Sri Lanka Construction Consortium sponsored by the Federation of Chambers of Commerce and Industry which intends forming itself into a non–profit foundation built 2,000 houses in 103 electorates in 1980 under the Government's 20 houses per electorate programme.

Prior to the 1981 Budget there were conflicting reports of the cuts in expenditure in housing but despits the atmosphere of uncertainty the Prime Minister in his capacity as Minister of Local Government, Housing and Construction spoke of raising the target from 100,000 units to 153,000. (33)

The Prime Minister also canvassed the case for priority for housing in an address to the United Nations in which he said "The replacement of shanties with decent housing is not a peripheral part of development. It is the very core. It is an investment in mankind.'"

It was becoming increasingly clear however at this stage that the State could not shoulder the burden of escalating costs. A committee with the U.N. consultant to the U.D.A., Mr. T.S. Vedagiri, as Chairman, in an interim report categorically stated that if the Government attempted to undertake construction of houses for all sections of the population it was "inconceivable" that it would ever catch up with the demand. The Committee stated that "To cope with the present rate of increase of population the Government would have to build nearly 60,000 housing units per year which would be a colossal job." (34)

The Committee therefore suggested that the National Housing Development Authority and the Urban Development Authority should acquire land at various places, provide the necessary infrastructural facilities, and sell these blocks of lands to individuals, institutions, or co–operatives at reasonable rates.

(It is worth noting, in passing that as far back as 1958, Joan Robinson, in her report to the National Planning Commission predicted that with development there would be a steep rise in land values. She suggested that the Government should acquire lands in areas surrounding growing cities or industrial sites and that these lands could later be made available for development on 99 year leases). (35)

It was the World Bank's "advice" that proved decisive. A seven member team from the World Bank found that original cost estimates had been defective and with the inclusion of new projects and the setting of higher targets the financial resources available (both local and external) were totally inadequate. The World Bank's call for a scaling down of expenditure and emphasis on short gestation projects covered all major development activities and in housing, as in the other development schemes the Government accepted the guidelines set by the Bank.

The "crunch" finally came in the Budget for 1981 announced on November 5, 1980. Under the Estimates tabled in Parliament a few days earlier the allocation for the Ministry of Local Government, Construction and Housing was Rs. 2,504 million. In the Budget Speech this Ministry was one of 16 whose estimates were drastically slashed and the provision was reduced to Rs. 1,880 million – a cut of 24.9 per cent against an average of 22 per cent for all 16 Ministries.

However high in the sky the sky-scrapers of the future may reach the fact remains that Colombo is all the time becoming more and more congested and more and more unhealthy to live in.

In the present century the population of Colombo has increased from 154,000 in 1901 to 616,000 in 1977.

About 40 per cent of the population of the premier city live in slums or shanties. At the last count there were 17,000 slums occupied by 23,000 families and a total of 135,000 persons. In addition there were 16,000 shanties occupied by 20,000 families and a total of 120,000 persons. Only 60 per cent of householders enjoy pipe–borne water and only 22 per cent have pipe–borne sewerage. At one "settlement" in Kompaniveediya there was one stand pipe for 128 persons.

Some even more disturbing facts were revealed in a Marga Institute study for the I.L.O. which showed that in some parts of Colombo as much as 99 per cent of the residents lived in shanties or tenements.In Panchikawatte, for example 75.9 per cent of the residents lived in shanties; 24 per cent in tenements and only 0.1 per cent in dwellings classified as "others." In Borella North too 67.9 per cent live in shanties; 32 per cent in tenements and 0.1 per cent in "others." At Mahawatte 30.1 per cent live in shanties; 69.4 per cent in tenements and 0.5 per cent in "others." (36)

In the light of such realities it is difficult to understand the claim by the

Secretary of the Ministry of State that Colombo is now internationally recognised as a model city in South East Asia in urban development. (37)

At the end of 1980 there were plans for several more sky-scrapers. A subsidiary of the Overseas Trust Bank planned to build a commercial and apartment complex that would have towers of 46 and 26 floors on a podium of five floors with the taller section for banks, shops and offices and the lower section for apartments. The complex is due to be constructed on two acres at Echelon Square where the Bank of Ceylon has plans for a 30 storeyed building.

Colombo has been more fortunate than many other capitals in that the shift from rural areas to the metropolis has not been as marked as in other countries such as the Philippines, Thailand and Indonesia.

The availability of subsidised food and free health and education facilities tended to minimise the disparities that prevail in such services in other countries between urban and rural areas. The closely knit family structure in Sri Lanka with children remaining with parents even after they become adults is another reason why migration to Colombo has not been as great as in other Asian capitals. (38)

In the rate of migration from rural areas to cities the rate of increase in city population in Sri Lanka is the second lowest in South and South East Asia. India's rate at 3.5 per cent was the lowest. Sri Lanka was second with 3.6, while very much higher percentages were recorded in Thailand, Indonesia, the Philippines and Pakistan. (39)

Colombo is also not faced with the prospect of sustaining a population of the staggering sizes for other capitals predicted by the E.S.C.A.P. Division of Population which estimates that in the year 2,000 Cairo will have 16 million persons; Tokyo 26 million, and Mexico 32 million.

According to U.N. studies more than half the population of the world will live in cities in 2000. Sri Lanka is fortunate in this respect in that there are only eight towns – Colombo, Dehiwela-Mount Lavinia, Kotte, Moratuwa, Negombo, Galle, Kandy, and Jaffna, with populations of over 50,000 each.

REFERENCES

1. Ceylon Daily News. May 30, 1978.
2. Employment, Resource Mobilization and Basic Needs through local level planning. (I.L.O.' Bangkok, 1979)
3. Central Bank Review of the Economy, 1978.
4. New Civil Engineer (U.K.), June, 1980.
5. Ceylon Daily Mirror. December 4, 1980.
6. N.C.E. (see 4 above)
7. People's Bank Economic Review, August, 1975 and March, 1977.
8. Ceylon Daily News. June 4, 1980.
9. Ibid. August 13, 1980.
10. The Economics of Poverty. Thomas Balogh (London 1966).
11. Ceylon Daily News. April 29, 1980.
12. Sessional Paper 1 of 1970.
13. Ceylon Daily Mirror. September 19, 1980.
14. People's Bank Study Papers. A Study of the Socio–economic conditions and investment possibilities of the Mahaveli Development Project. Dr. Dingiri Karunatilleke.
15. Tribune. November 1, 1980.

THE FREE TRADE ZONE.

16. Sri Lanka Investment News. Vol. 1. No. 1. March, 1980.
17. Asian Wall Street Journal. September 23, 1980.
18. Ceylon Observer. September 12, 1980.
19. Sri Lanka Investment News. Vol. 1. No. 2. July 1980.
20. Business Asia. June 2, 1978.
21. Business Week. March 10, 1980.
22. Asiaweek. March 2, 1980.

INVESTMENT OUTSIDE THE F.T.Z.

23. Ceylon Daily News. August 19, 1980.
24. Sri Lanka Investment Opportunities. Foreign Investment Advisory Committee.
25. Ceylon Daily News. August 9, 1980.
26. Sun. October 10 and December 4, 1980.
27. Ibid. September 9, 1980.

REFERENCES (Contd.)

URBAN DEVELOPMENT.

28. The Nation. Colombo, December 5, 1980.

29. Ceylon Daily News. July 23, 1980.

30. Sun. July 28, 1980.

31. People's Bank Economic Review. April, 1980.

32. Budget Speech for 1981. November 5, 1980.

33. Sun. July 14, 1980.

34. Ceylon Observer. July 23, 1980.

35. Papers by Visiting Economists. Planning Secretariat. Colombo 1959.

36. The City of Colombo. Charles Abeysekera. (Centre for Society and Religion. Colombo 1979) and The Informal Sector of Colombo City. A working paper prepared for the World Employment Programme of the I.L.O. by Marga Institute. May, 1980.

37. Ceylon Daily News. August 12, 1980.

38. Modern Ceylon Studies. Vol. 1. No. 2. 1970.

39. The City as a Centre of change in Asia. Edited by D.J. Dwyer. (Hongkong University Press. 1972)

Chapter 6

A SHAKY TRIPOD — the plantation industries

Collectively tea, rubber and coconut still provide almost two thirds of the country's export earnings but in recent years their percentage share of total exports has fallen steadily. In 1970 these traditional exports as they are known, accounted for 89 per cent of total exports. In 1977 the percentage had dropped to 74 per cent, and in 1979 to 65 per cent.

While tea provided 37 per cent of the value of all exports in 1979, rubber with 16 per cent and coconut with 11 per cent were displaced by industrial exports which accounted for 24 per cent.

The share of the tea industry in all exports dropped from 55 per cent in 1970 to 37 per cent 1979.

Thus, after over three decades of Independence the tea industry remains the country's main foreign exchange earner as it has been since the eighteen nineties but the industry is in disarray both nationally, and internationally, and the future prospects are bleak. In real terms prices are at the lowest level recorded since the last war.

Although the acreage under paddy cultivation is slightly over that under tea and rubber cultivation combined, in terms of value the output of the tea industry is more than that of rice, rubber and coconuts combined. In terms of land utilisation the revenue from a single acre of tea is approximately equal to that of three acres under paddy cultivation yet successive governments have launched food drives and production wars to step up output of rice.

Of the total area devoted to export crops tea occupies only 33 per cent of the land but generates about 62 per cent of the revenue from agricultural products. The industry employs 1 in every 6 of all employed persons, earns over half the country's foreign exchange, and provides about one third of all government revenue. The industry occupies the apex of the commanding heights of the economy and is unique in that it generates "the highest level of income and employment per hectare of any large scale crop anywhere in the world." (1) At the other polarity it is unique in that it has registered declining production over the last 15 years.

In 1971 a top- ranking government economist in forecasting trends for tea wrote "if costs do not rise and management continues to be efficient, as it has been in the past, tea will continue one of the main exports."

Both expectations of course have been completely belied by developments in the seventies.

The take-over of the estates under the Land Reform (Amendment) Law No. 39 of 1975 was carried out while my earlier book was in the press. Under this Law 415,508 acres of tea, rubber, coconut and other crops belonging to 232 public companies were vested in the Land Commission. Of the 232 public companies 87 were sterling companies which owned 191 estates and 145 were rupee companies which owned 205 estates. The total acreage taken over included 292,126 acres of tea, 110,021 acres of rubber, 8,036 acres of coconut and 5,325 acres of minor crops. Agency Houses had controlled 62.1 per cent of the tea production, 27.3 per cent of the rubber production and 3.9 per cent of the coconut production. (2) There are unlikely to be further changes in ownership and at the end of the seventies and the land reform exercises the ownership pattern in the industry was that the State owned 62 per cent of tea lands consisting entirely of estates over 20 hectares in extent. Of the balance 38 per cent under private ownership small holdings under 4 hectares in extent constituted 20 per cent of tea lands while the other 18 per cent consisted of small estates between 4 hectares and 20 hectares in extent.

A long overdue reorganisation was effected in February 1980 when two new Ministries were created for the Janatha Estates Development Board and the State Plantation Corporation with the President himself in control of both.

Regional Boards of the Janatha Estates Development Board were established in Hatton, Kandy, Badulla, and Kegalle while Regional Corporations of the State Plantations Corporation were set up in Hatton, Nuwara Eliya, Kalutara, and Galle.

The Regional Corporations and Boards play roles similar to those played by the Agency Houses in the past but further organisational changes are likely. The position of the Tea Board has become anomalous and for an overall view of the state of the industry it is necessary to study the reports of the Ministry of Janatha Estates Development, the Ministry of State Plantations, and the Ministry of Plantation Industries under which the Tea Board operates. Estimates of production, replanting, capital expenditure etc. can only be obtained by studying data provided by both Ministries and there are projects such as the Maskeliya Tea Rehabilitation Project which cover estates under both Ministries.

With the President, Mr. J.R. Jayewardene taking on the duties as Minister of Janatha Estate Development and Minister of State Plantations the tea industry for the first time in the history of the country came under the direct supervision of the Chief Executive.

One of the first problems settled by the President was the question of the terms and conditions of service of planters which had earlier dragged on without finality ever since nationalisation. In addresses to planters the President has reminded them that while "the day of the Planting Raj" is over they can now expect justice and fair play. "Trust the man on the spot" had been the motto of the British and that was exactly what he was going to do. (3) Tea production rose marginally by 4 per cent to 206 million kilograms in 1979 but the prices realised at the Colombo auctions declined by 4 per cent. The price of Sri Lanka teas at the London auctions dropped by as much as 9 per cent and there was an overall fall of 8 per cent in average export (f.o.b.) prices.

Even more ominously the average cost of production rose by an estimated 21 per cent mainly due to an increase in wages which by itself raised production costs by 12 per cent. In 1979 cost of production per kilogram was Rs. 12.70.

Despite the slight increase in production in 1979 the output of the industry was still well below production levels in the seventies when the highest output recorded was 218 million kilos in 1971, and much lower than the average of 223 million kilos recorded between 1965 and 1968.

At the end of 1980 there were indications that production was once again definitely on the downward trend. Production in the first quarter of the year was as much as 11.9 million kilos less than in the corresponding period for 1979 and in the second quarter production at 62 million kilos was only fractionally above the 1979 figure of 61.4 million. For the first six months of 1980 there was an overall drop of 11.3 million kilos. Fortunately prices improved 16.8 per cent for low-growns; 4.7 for mediums, and 2.9 for high-growns. In contrast India raised production from 248 million kilos in the first seven months of 1979 to 283 million kilos in the corresponding period in 1980.

The Monetary Board of the Central Bank has used rather cautious language in describing the problems of the tea industry. "By improved management practices, and through more effective decentralization of management, and by elimination of outside interference in operations it should be possible for these corporations (Janatha Estates Development Board and State Plantations Corporation) not only to increase profitability but also to eliminate waste and losses."

It is a sad commentary on nationalisation that the organised pilfering of made tea continues almost unabated. The Central Bank in estimating that such thefts amount to about 10 to 15 per cent of total production has warned that unless corrective steps are taken "the situation is likely to get out of control." At the end of 1980 the authorities were reported to be considering stiffer penalties to curb such fraudulent practices. Whether an increase in fines from Rs. 1,000 to Rs. 100,000 and the new provision for confiscation of vehicles will prove to be deterrent remains to be seen (4) Action is long overdue for the scandal of tea thefts has now reached the stage where stolen tea is being exported abroad. Although exporters are required to furnish statements of shipments exported to the Tea Board it has been found that there were consignments of tea which were unaccounted for by the exporters concerned. This is reflected in the large discrepancies in quantities of teas sold at the auctions for export and statistics of shipments maintained by the Board. (5) The re-organisation of the structure of the tea industry is now being considered by Government in the light of the report or Master Plan submitted by the Canadian International Development Agency. (CIDA). In 1978 when the Government invited CIDA to report on the tea industry and the British Commonwealth Development Corporation to advise on the rubber industry the Monetary Board of the Central Bank was sceptical of the wisdom of the move. It commented that "whether such external assistance is really necessary in the case of two crops of which Sri Lanka has developed a considerable expertise over a long time, having even assisted nascent industries in other countries in the past, remains debatable." In its report for 1979 the Board reported CIDA's recommendations in summary and without comment either way. (6)

Despite the Central Bank's scepticism the Government accepted the Master Plan formulated by CIDA which is now being implemented with World Bank assistance in a five year investment programme from 1980-1984 which envisages the investment of Rs. 2.8 billion and with Rs. 2 billion being provided by the industry itself.

The CIDA team summarises the plight of the tea industry with the observations that "threats of nationalization, unequal treatment in terms of foreign exchange earned, and finally mismanagement and disinvestment during and after estate nationalization also contributed to the industry's deterioration. This negative environment resulted in falling investment, lack of field and factory maintenance demoralized management, political interference and ultimately, falling production." The team recommended wide ranging changes in the institutional structure of the industry and as this book went to press the Government had directed the Sri Lanka Institute of Development Administration to report (among other matters) on how far the existing organisational structure and management systems facilitate the objectives for which they had been established. SLIDA entrusted this task to a team of consultants. Will yet another organisation be appointed to report on SLIDA's report on CIDA's report? CIDA itself computerized "450 usable responses" out of 500 replies it received to its questionnaire apart from individual meetings with persons in every segment of the industry.

The CIDA *Tea Master Plan* is not the first such plan. Another very valuable report on the tea industry was formulated by a team from International Development Assistance of the World Bank but that report was shelved.

The IDA team noted that Sri Lanka was the only major tea producing country which had experienced a long term decline in production and its share of world production had dropped from 18.6 per cent in the late sixties to 12.2 in 1976. It estimated that by 1995 Sri Lanka's production will be 227 million kilos which will still be below the 1965 production and that by 1995 Sri Lanka's share of world production will be only about 8.6 per cent.

The IDA team stated that the poor performance of the tea industry had its beginnings in the sixties when Governments were more concerned about food production. In the seventies the decline was due to lower profitability, uncertaintly over land reforms, and inadequate foreign exchange for inputs such as fertilizers, factory machinery, and vehicles. Fertilizer use dropped from 43,000 tons in 1965 to 30,000 tons in 1975 and there was also a neglect of replanting in the mid seventies.

On the organisational structure at management levels the IDA team stated that while policy making, marketing, financial control and supply of inputs were centralised, the responsibility for day-to-day management was decentralised in regional offices.

The team noted that while morale was low at staff managerial level difficulties were being experienced in recruiting Sri Lankan nationals to replace workers being repatriated owing to the low health and welfare standards, and overcrowded and primitive housing facilities. In fact infant mortality and general mortality were 50 per cent above national averages. Incidentally Mr. Robert McNamara, the World Bank President in his comments on the report also referred to the poor housing which he said would be unacceptable to Sri Lankan labour. He said substantial investments would have to be made in housing to attract Sri Lankan labour or there would be a decline in the labour force and a further decline in production. (7)

The major trends in marketing have been the decline in exports to European markets and the growth of Asian markets. Shipments to European markets dropped from 40 per cent of all shipments in 1966 to 20 per cent in the late seventies. In the same period shipments to Asian countries, mainly Pakistan and the Middle East rose from 24 per cent to 44 per cent of total shipments. With the growth of income in West Asia there has been a marked increase in demand for the low grown teas which are popular in those countries.

Sri Lanka seems to have failed to keep pace with changing trends in consumption. There has been an increase in tea bag consumption. The CIDA team noted that about half the tea exported does not have the special demand features of consuming countries. It said "Attention to market features is important and price improvement may be possible if greater care is taken to produce the leaf sizes demanded in this market."

The same point was emphasised at the annual general meeting of the Colombo Tea Traders' Association in 1980 by the Chairman, Mr. H. Wijeratne who drew attention to the fact that British purchases of Sri Lanka tea had dropped owing to our inability to supply cut-twisted and curled tea. Sri Lanka was unresponsive to changes in demand trends of traditional buyers. (8)

Among factors attributed for the fall in production are the ageing of the bushes, reduced use of fertilizers, adverse weather, and shortage of labour owing to the repatriation of workers of Indian origin. According to an IDA estimate 70 per cent of the tea bushes in Sri Lanka will be over 50 years old in 1985 and as much as 50 per cent will be over 70 years old. *The Economist* quoted official sources as stating that the average age of the tea bushes on plantations is 60 years and that only 15 per cent of tea lands have been replanted with high yielding varieties.

Replanting was neglected in the seventies largely owing to uncertainty over ownership and the low rate of subsidy payments. In November 1977 however the subsidy was increased from Rs. 4,750 per acre to Rs. 6,000 per acre. At the end of 1978 the total area replanted with high-yielding varieties was 79,568 acres.

In 1979 there were further increases in the replanting subsidies which were increased to Rs. 8,000 per acre in the low-grown areas and Rs. 10,000 per acre in the medium and high elevations. At the same time the subsidies for planting vegetatively propagated tea on new lands, or old rubber lands were also increased. Despite these inducements the industry failed to achieve the targets set. By the end of 1979 only 81,602 acres (33,037 hectares) had been replanted with high yielding clonal varieties and this acreage constituted only 14 per cent of the total area.

The position in regard to the application of fertilizers which also suffered during the uncertainty over nationalisation is also a matter of serious concern. Average yield per acre declined by five per cent from 899 pounds in 1977 to 855 pounds in 1978. Despite a decline of fertilizer issues to the industry in 1979 by 9 per cent average yields increased by 4 per cent and this is attributed to the "lagged effect" of a substantial increase in the issue of fertilizers amounting to 44 per cent in 1978.(9)

Among ominous developments for the industry have been China's inroads into Sri Lanka's markets in the U.S.A., Australia and Japan and her emergence as a major tea exporter.

Sri Lanka's tea exports to the U.S.A. dropped from 36 million kilos to 13.5 million between 1978 and 1979. In the same years China's exports rose from 4 million kilos to 7.8. In the first five months of 1980 Sri Lanka exported 7 million kilos to the U.S.A. but China's exports in this period were higher at 10.7 million kilos, and total sales for 1980 are expected to be in the region of 15 million kilos. India is also being phased out, or priced out of the U.S. market by China. (10)

In the first three months of 1980 China also sold 15 tons of black tea to Japan against only one ton in the corresponding period in 1979.

Even more spectacular has been China's spurt in production in a period in which Sri Lanka's production waned.

In 1949 China's production was a mere 4.5 million kilos. In 1978 production was 260 million kilos and in 1979 it was 290 million kilos of which 106 million kilos were exported. In the last three years China has shifted from being an importer to a major exporter and as a rival to India, Sri Lanka, Kenya, and Indonesia.

Even Brazil which is synonymous with coffee is emerging as a challenger to Sri Lanka's tea. In 1921 a Japanese Tarazo Okomoto took 60 tea seeds to Brazil from Sri Lanka. Today Brazil is the sixth leading tea cultivator. In the last five years Brazil has doubled her output. The Sri Lanka Department of Commerce recently observed that Brazil has begun to have a serious impact on the world's import markets with 80 per cent of her tea going to British and Asian countries. (11)

There have been relief measures for the tea industry but they have proved inadequate.

The first measure of relief which the Government provided the industry in 1979 was a reduction in the export duty on bulk tea in July 1979 from Rs. 15.50 per kilo to Rs. 10.50. Even this relief proved inadequate and in the November Budget the price at which the ad valorem tax of 50 per cent became operative was raised from Rs. 10.50 a kilo to Rs. 12. These measures still left the industry in a state where it was taxed 48 cents on every rupee of tea exported. The tea industry was thus in the anomalous position as the Monetary Board described it of being "perhaps one of the highest taxed economic activities in Sri Lanka, while continuing to be its mainstay. . . . . . . current production costs and taxation are at such a level that the industry appears to be unable to generate an adequate surplus."

In November 1979 the tax structure was further adjusted when the level at which the ad valorem tax was payable was raised from Rs. 12 to Rs. 16 per kilo. In addition the rate of ad valorem sales tax was reduced from 50 per cent to 20 per cent. This relief was largely negatived however by the effects of severe drought in the first half of 1980.

The Guaranteed Price Scheme for green leaf supplies had resulted in the production of poor quality teas and had also led to malpractices and was therefore replaced with a price support scheme in November, 1979.

It is fortunate for the tea industry that the implementation of the Indo-Sri Lanka pacts of 1964 and 1974 on the future of persons of Indian origin has fallen far behind schedule. Under this pact India was to take back 600,000 persons between 1964 and 1979 and Sri Lanka was to grant citizenship to 375,000 persons. The entire process should have been completed in the 15 years from 1964 to 1979 but as at September 1980 only 260,904 adults and 78,000 children had been repatriated and Sri Lanka had granted citizenship to only 149,198 adults and 42,441 children. While the Sri Lanka Department of Immigration and Emigration and the Indian High Commission in Sri Lanka have been blaming each other for the slow progress in repatriation this has at least given the tea industry some breathing space. From 1978 shortages of labour have been experienced particularly in the Hatton, Nuwara Eliya, Haputale, and Badulla districts but there are surpluses of labour, and particularly men, in some areas. (12)

"Simple mechanization so that future labour shortages and rising wage costs would not impair Sri Lanka's competitiveness in world markets" is the rather simplistic solution proffered by the Central Bank but immediate solutions are not so easy to find, or implement. Dr. Helen C. Abell, who wrote the report on the sociological aspects of the Master Plan observed that despite plans to improve working conditions on estates (as an inducement or attraction to Sri Lankan labour) actual progress had been minimal. In the case of housing she commented that "the combination of leaking roofs, two to ten or more people in one room and the improbability of maintaining freedom from respiratory and other infactions needs no elaboration." (13)

Estates which have lost labour have recruited local labour, internal migrants, and the children of "stateless" persons whose future status is yet to be determined but the very slow progress in the conversion of the lines into cottage type units is fraught with the possibility of indigenous labour being reluctant to work on estates, the situation that originally prevailed one and a half centuries ago when the "import" of labour began from India after experiments with Chinese labour had proved unsuccessful.

Workers of Indian origin constituted 90 to 95 per cent of the labour forces on estates in the higher elevations where there are entire areas without Sinhalese villages.

The failure on the part of India, Sri Lanka, Kenya, Indonesia, Bangladesh, China, Malawi, Tanzania, and Uganda to reach agreement on quotas or buffer stocks at the meeting in Bandung in May 1980 was an ominous portent of the unlikelihood of international co-operation among producers even in the future. There was agreement in principle on the desirability of restricting exports to 740,000 tons a year but there was no agreement on prices, quotas, buffer stocks, or export regulations. An Export Quota Scheme with provision for a buffer stock to regulate tea supplies to the world market is no closer to fruition than it was when it was originally mooted at a meeting in Malawi almost two years ago.

At a "summit" in Geneva in October, 1980 which was held under the auspices of UNCTAD the five big producers, Sri Lanka, India, China, Indonesia, and Kenya expressed concern over the depression in prices but talks on an international agreement to fix quotas for individual countries ended inconclusively.

F.A.O. studies show that prices of agricultural and plantation industries are likely to remain unstable. The latest F.A.O. Commodity Review illustrates how while the products of developed countries such as bacon and cheese enjoyed stable prices in the last decade there were wide fluctuations in the prices of tea, rubber, rice, soyabean, cotton and cocoa. Tea prices were four and a half times more "volatile" between 1974 and 1978 than they were between 1968 and 1972, and production too fluctuated owing to a variety of factors ranging from climatic to political, causing changes in supply and demand to have a greater impact on prices.

While the F.A.O. expects a surplus of about 65,000 tons in 1985 the World Bank estimates a surplus of about 80,000 tons in 1985. (14)

With the industry in a state of travail there were various plans for resuscitation in 1980. One suggestion was that traders should be allowed to import tea duty free for blending, packeting, and export. At the same time there were reports that both Bangladesh and Indonesia were also planning to start blending and they would import Sri Lanka teas for blending. At the end of the year the Minister of Trade and Shipping announced that a State owned company would be formed in 1981 to undertake blending with existing State organisations such as Consolexpo, the J.E.D.B., and the S.P.C. being the main participants.

RUBBER

The rubber industry which provides 16 per cent of export earnings and 11 per cent of government revenue suffered less from the effects of Land Reform than the tea industry largely due to the beneficial effects of the re-planting programme launched in 1953 but recent production apart from an increase from 146 million kilos in 1977 to 156 million kilos in 1978, has remained fairly constant and the estimated production in 1979 was only 153 million kilos despite a slight increase in the area under tapping.

The J.E.D.B. and S.P.C. own about 25 per cent of the area under cultivation and account for about 30 per cent of production. About 75 per cent of cultivation are on private estates or small holdings which produce about 70 per cent of total output.

While about 70 per cent of all rubber grown in the world is in small holdings, in Sri Lanka 53.7 per cent of the total area of 273,000 hectares under cultivation is in smallholdings. Some smallholdings which are even less than 1 acre in extent are uneconomic and the financial limitations or incapacity of the owners result in poor cultivation and management practices. At an international conference organised by the Association of Natural Rubber Producing Countries held in Colombo in July 1980 it was decided to provide smallholders with budded stumps of approved clones from large estates and also to supply fertilizers and other needs at attractive prices. The block rubber factory and 100 group processing centres will cater specially to the needs of smallholders.

The rate of replanting has been unsatisfactory in recent years despite an increase in the subsidy from Rs. 2,000 to Rs. 3,000 per acre in 1978, and further increases to Rs. 4,000 per acre and Rs. 5,000 per acre in 1979. In November 1979 the subsidy was again increased to Rs. 6,500 per acre for private estates and smallholdings.

Despite these increases the rate of replanting has been slow. In 1977 6,466 acres were replanted and in 1978 only 7,968 acres were replanted. The figures were well below the annual target of 15,000 acres (6,000 hectares). In the first half of 1979, 4,766 acres were replanted. Between July 1979 and July 1980, 9,888 acres were replanted. At the end of 1979 the cumulative area replanted with rubber amounted to 144,514 hectares or 64 per cent of total registered rubber lands. The record of the rubber industry in this respect is much better than that of the tea industry but there is considerable room for improvement which it is hoped will be achieved under the schemes now under implementation with foreign assistance. The reasons for the slow rate of progress have been the inadequacy of the subsidies and the stringency of conditions governing the grant of subsidies.

In 1979 the Central Bank estimated that while the maximum subsidy payable was Rs. 6,500 per acre the actual costs of replanting ranged from Rs. 8,500 to Rs. 10,000 per acre. The subsidy also does not compensate for the loss of income until new plantings come into production which is a slow process and the productive life of the rubber tree at about 30 years is very much less than that of the tea bush.

Under an F.A.O./World Bank Co-operative Programme 47,000 acres under smallholdings are to be replanted. While this scheme will cost Rs. 320 millions over the next five years and will be financed mainly by the I.D.A. the industry itself will generate most of the projected expenditure of Rs. 588 millions over the next five years in replanting the targeted figure of 15,000 acres annually. (15)

The rubber industry like the tea industry is being revitalised on the basis of a Master Plan formulated by foreign consultants from the Commonwealth Development Corporation whose expenses were borne by the British Government. The replanting schemes, the construction of an additional 40 group processing centres and other measures for the improvement of the industry were formulated on the basis of the C.D.C. Master Plan. (16)

China, as usual, has remained the sheet anchor of the sheet rubber industry. In 1979 it purchased 48,087 tons while shipments to the U.S.A, European countries, and Pakistan amounted to 6,989 tons.

While the Central Bank has expressed the view that " The future prospects for natural rubber have never looked brighter with rising oil prices" an even more promising long-term prospect lies in the fact that accord has been reached on an international agreement on supply and demand between major producers and consumers which was initially signed in Geneva in September 1979 and subsequently ratified by major producers and consumers in 1980.

According to UNCTAD Secretary-General, Dr. Gamani Corea, there is every prospect that rubber will become the first international commodity agreement to be associated with the UNCTAD Common Fund. The central element of the rubber agreement is a principal stock of 400,000 tons and a supplementary stock of 100,000 tons. This is the first commodity agreement in which producers and consumers will share the financial burden involved. (17)

While synthetic rubber does not pose problems to the future of natural rubber, producers have been warned of a possible threat from another natural substitute, the "Guayate" which is a desert shrub found growing uncultivated in the south-western U.S. and which is said to contain substantial quantities of latex. This is a potential danger to all rubber producing countries and the International Economic Co-operation Division of the Ministry of Finance and Planning has suggested that Sri

Lanka should explore the possibitities of growing the shrub in the dry zone. (18) The idea seems more economically feasible and attractive than the proposal under consideration by the Rubber Research Institute, Forest Department, and Lands Ministry to grow rubber instead of the traditional trees for forest cover.

Either way the long-term prospects of natural rubber are favourable. At present natural rubber constitutes only 30 per cent of all rubber consumed. Studies by the Malaysian Rubber Research and Development Board have shown that consumption of natural rubber can go up to 42 per cent within the present decade. Production is expected to be well below demand and the industry can look forward to increased demand and better prices.

The buoyancy of rubber prices was reflected in the fact that in 1979 the value of exports rose by 23 per cent despite a fall in quantity by 7 per cent as prices rose by 33 per cent.

COCONUTS

Government intervention, regulation, and control of the coconut industry has been greater than that over the tea and rubber industries but even the creation of a special Ministry for the industry has failed to rescue it from "a state of advanced decline."

The industry was already in a parlous state when the cyclone of 1978 destroyed about 30,000 acres in the Eastern province and a total of about 2.5 million trees.

Since coconut is an indispensable item in the daily diet of Sri Lankans successive Government's have been faced with the dilemma of trying to protect the interests of consumers while at the same time ensuring that producers receive adequate returns and that government revenue and foreign exchange earnings are not jeopardised.

The Budget pronouncements of the Minister of Finance and Planning Mr. Ronnie de Mel are generally rose-tinted but the coconut industry has been a dark spot in his bright pictures.

In 1978 Mr. de Mel drew attention to the fact that coconut production had fallen by 30 per cent from 2991 million nuts in 1976.

He said that while there had been a decline in management standards with land reforms there had also been a sharp drop in the use of fertilizers. Describing the outlook as "gloomy" Mr. de Mel said that if the previous Government had continued in power Sri Lanka would have had to import coconuts.

While remedial action was taken to increase the use of fertilizers the industry has suffered almost continuously from periods of prolonged droughts.

The replanting subsidies were increased in the last four years from Rs. 840 per acre to Rs. 1,800 per acre and then to Rs. 2,250 per acre while the subsidy for new plantings was increased from Rs. 1,000 to Rs. 2,200 per acre. As in the case of tea and rubber however the subsidies were inadequate and did not induce the desired levels of replanting or new cultivation. The cutting down of trees and even plantations is also an essential and inevitable concomitant of the various housing and development schemes that have been undertaken after the present Government assumed office.

Fairly significant progress was achieved in 1978 when fertilizer use rose by 46 per cent and 1,202 acres were replanted while 1,297 acres were brought under cultivation.

In 1979 fertilizer application increased by 20 per cent but production at 2,393 million nuts was still well below the average of 2,500 million nuts in the early seventies. Greater progress was recorded in replanting with 3,001 acres being replanted and 4,266 acres being brought under cultivation.

Production has increased every year in the last three years from 1821 million nuts in 1977 to 2207 million nuts in 1978 and 2393 million nuts in 1979 but the industry as a whole remains in a parlous condition. (19)

While the emphasis in policy until recently was to safeguard the interests of the consumer the present Government has decided that efforts should be made to encourage producers. This is reflected in the changes in the duty structure. In 1978 producers were assured of Rs. 560 per 1,000 nuts. In the first half of 1978 this was increased to Rs. 850 per 1,000 nuts and between July 1979 and June 1980 prices were revised twice increasing the prices to producers to Rs. 1,000 and then to Rs. 1,250 per 1,000 nuts. (20) While these increases have helped to revitalise the industry which was earlier in a rapid state of decline the impact on the cost of living has been severe. Coconut products constitute about 22 per cent of the nutrition in the average Sri Lankan's diet and with single nuts being sold at Rs. 2.50 in October 1980 the economic hardship caused to all but the very affluent is immense.

In Sri Lanka coconut is predominantly a small holder's crop but even the Philippines which is the world's largest producer of coconut products does not possess large estates on the scale found in Sri Lanka, Indonesia, and Malaysia. According to an international survey the Philippine coconut industry is "extremely inefficient" judged by the standards prevailing in

Sri Lanka and Malaysia. (21)

The organisational structure of the industry was streamlined in January 1980 when the Coconut Marketing Board and the Coconut Processing Board were abolished and their functions were assigned to the Coconut Development Authority and the Coconut Research Board. The nationalised British Ceylon Corporation which is the main producer of coconut oil and purchaser of copra was also brought under the control of the C.D.A. which is now the main implementing agency of Government policy.

The coconut industry has been the beneficiary of foreign assistance from the F.A.O., the U.K., the E.E.C., and the Italian Government but future development is to be geared to a Master Plan formulated by the Asian Development Bank which will also provide the funding of 42 million U.S. dollars. The total acreage of 1,150,000 acres is second in extent only to paddy and per capita consumption of nuts is about 125 per year making the future of the industry of vital concern to every Sri Lankan but future prospects unfortunately remain gloomy.

In the first six months of 1980 production fell by 20 per cent and the value of exports which was Rs. 438 million in the first six months of 1979 dropped to Rs. 318 million in Janaury to June 1980.

In August 1980 Government suspended the export of coconut oil owing to the low prices quoted in international markets but even more ominously the Minister of Coconut Industries, Mr. Harold Herath has predicted that Sri Lanka will cease to export any coconut products within the next ten years if local consumption which is now 70 per cent of total production is not reduced. (22)

Consumption of coconut increased from 889 million nuts in 1948 to 1279 million nuts in 1978. Unless the hopes of increasing yield from the present level of around 2,300 nuts per acre to about 6,000 are fulfilled the pessimistic projection of the Minister of Coconut Industries could well become a reality, or the country might be just self-sufficient with no surplus for exports. (23)

A suggestion was made to the Minister of Coconut Industries to allow the import of Palm Oil for the purpose of replacing coconut oil for domestic cooking. This would release large quantities of coconut oil for export and have more poonac available for cattle and animal feed.

The price differential however did not make this attractive. However, if it helped increase domestic milk production and reduce imports of powdered milk, then the exercise would be of national benefit.

LAND REFORM

While the disruptive effects of land reform on the country's three major export crops and the fact that the exercise was politically motived rather than egalitarian are generally known there has been no systematic or scientific study of all aspects of the so called "land reforms".

Recent studies by the Agricultural Research and Training Institute have confirmed, if confirmation was needed, that the land reforms of 1972 were "more a political exercise aimed at boosting the image of politicians rather than one directed to benefit the particular target group of landless and unemployed people. Eight years after the land reform 40 per cent of the rural population are landless wage earners who live below the poverty line". Going back to all efforts made since 1948 one study on agricultural labourers states that all measures adopted in the post-independence era have hardly had any impact on this class. (24)

By the middle of 1976 only about five per cent of the vested lands had been redistributed and there had been no significant impact in the provision of lands to tillers. (25)

The Bandaranaike Government while proclaiming its intention of righting historical injustices (which were magnified out of all proportion in the speeches of ill-informed politicians) had also to maintain the bulk of the vested estates which were the country's main sources of foreign exchange.

Many of the lands taken over were unproductive or only marginally productive and could not have been made productive by peasants without assistance from the State which was not forthcoming.

The present Government has made efforts both to compensate owners who had not received compensation, or had lands acquired in politically motivated exercises while at the same time ensuring that idle and unproductive lands are given to the landless.

In 1978 and 1979 owners who had been unfairly dispossessed were given possession of a total of 12,896 acres or 2.3 per cent of lands originally vested. In 1979 the L.R.C. paid Rs. 44 million as compensation bringing the total paid as compensation to Rs. 239 million. 65 foreign companies received a total of Rs. 159 million as compensation by the end of 1979. (26) The shareholders of rupee companies had still to receive compensation due to them at the end of 1980.

Action is being taken under the Agrarian Services Act of 1979 to hand over uncultivated lands to landless persons. It has been estimated that about 300,000 owners of land have not utilized lands in their ownership and since uncultivated lands only contribute to the country's food import bill (about Rs. 5,000 million) it is only logical to hand over such lands to persons who will cultivate them. (27)

Under a crash land alienation programme projected for the first half of 1981 50,000 families will be settled on 47,000 acres of land. With the system of land kachcheris being in abeyance for over a decade a total of 605,802 persons had encroached on 959,474 acres according to a survey conducted in 1978. All encroachments except those on 121,000 acres reserved for forest reserves, roads, irrigation projects etc., are being regularised. (28)

REFERENCES

Tea

1. Tea Master Plan. Canadian International Development Agency. Final Report Vol. 1. March 1980.
2. People's Bank "Economic Review". November 1975.
3. Sunday Observer. July 6 1980.
4. Ceylon Observer. September 17 1980.
5. Ceylon Daily News. September 26 and Sun October 20 1980
6. Central Bank. Annual Report 1978.
7. Sri Lanka Tree Crop Rehabilitation (Tea) Project. Staff Appraisal Report May 1978. (I.D.A).
8. Ceylon Daily News. July 27 1980.
9. Central Bank. Review of the Economy. 1978 Annual Report 1979.
10. Ceylon Daily News. July 9 1980.
11. Exponews. Vol. 5. No. 6 1980. Dept. of Commerce, Colombo.
12. Ceylon Daily News. September 9 and 11 1980.
13. Position Paper No. 4 of the Master Plan (see 1 above).
14. Food and Agricultural Organisation Commodity Review. 1979–1980. Rome 1980.

Rubber

15. Central Bank Annual Report 1979.
16. Sri Lanka. An Emerging Business Centre. Economist Intelligence Unit. Special Report No. 84.
17. Ceylon Daily News. July 5 1980.
18. Feeding the Few. Susan George (USA 1979) and Current Awareness Service. No. 80/2 Ministry of Finance and Planning. Colombo.

R E F E R E N C E S (Contd.)

Coconut

19. Central Bank Review of the Economy and Annual Report. 1978 and 1979.

20. Performance, July 1979 to July 1980. Ministry of Plan Implementation.

21. Emerging Southeast Asia. A study in growth and stagnation. Donald W. Fryer (London) 1970)

22. Ceylon Daily Mirror. September 11 1980.

23. Sun. September 27 1980.

Land Reform

24. Sun June 6 1980 and Ceylon Daily Mirror. July 17 1980.

25. Employment, Resource Mobilization and Basic Needs through local level planning. Report of a National Seminar held in Colombo. ILO (Bangkok)

26. Central Bank. Review of the Economy 1979.

27. Ceylon Daily Mirror. August 1 1980.

28. Ceylon Daily News. November 11 1980.

Chapter 7

AN EMERGING BASE —
Industries, Tourism, Gems

While the traditional exports of tea, rubber and coconut still remain the country's main foreign exchange earners the success of the strategy of diversification is seen in the fact that in 1979 industries, tourism, (which is an invisible export) and gems together earned over five billion rupees in foreign exchange and being growth-oriented also eased the problem of unemployment unlike in the traditional sector where the demand for labour is almost static.

Industrial exports earned Rs. 3,737 million in 1979 accounting for 24 per cent of exports as against 15 per cent in 1978.

Tourism which for statistical purposes appears in the services account of the balance of payments brought in Rs. 1,053 million in 1979 and this was much higher than the earnings from all minor agricultural crops which amounted to Rs. 825 million.

Earnings from gems which were a mere Rs. 3,500,000 in 1971 were Rs. 490 million in 1979.

INDUSTRIES

The immediate outcome of the economic reforms of 1977 was a spectacular increase in industrial production from Rs. 7004 million in 1977 to Rs. 8851 million in 1978. In real terms industrial output rose by 11 per cent in 1978 as against only 1 per cent in both 1977 and 1976. Describing the growth of 11 per cent as "an unprecedented achievement" the Central Bank attributed it to the availability of inputs; the ending of a long period of controls and the competitive atmosphere that had prevailed after the liberalisation of imports. The Central Bank stated that "the economic reforms of 1977 signalled a fundamental change in emphasis from a narrow objective of import substitution under a high protective wall towards an outward-looking export-oriented development".

In 1978 20 per cent of total industrial production was exported as against 13 per cent in each of the years 1976 and 1977 but the share of industrial exports (including petroleum products but excluding gems) in the total value of all exports remained constant at 13 per cent.

The impetus and growth in 1978 was not maintained and fell considerably in 1979 when industries that had depended on import substitution felt the full impact of competition from imported goods.

In money terms production rose from Rs. 8,851 million in 1978 to Rs. 10,781 million in 1979 but in real terms output rose by only 4 per cent as compared with 11 per cent in 1978. The fall was alarming but the Minister of Industries said a growth of 4 per cent was "Quite laudable for a developing country like ours when compared with other Asian countries". (1)

Earnings from exports nearly doubled from Rs. 1,940 million in 1978 to Rs. 3,737 in 1979 due to increased earnings from exports of garments, textiles (with factories in the I. P. Z. coming into production) and petroleum products. The export component of total production rose from 22 per cent in 1978 to 35 per cent in 1979 and the share of industrial exports in total earnings rose from 15 per cent to 24 per cent in the same period.

An analysis of industrial performance in the years 1977 to 1979 shows that while capacity utilisation has improved there has been a sharp increase in the use of imported raw materials.

Capacity utilization improved from 60 per cent in 1977 to 70 per cent in 1978 and to 72 per cent in 1979 but the removal of import curbs also resulted in a marked increase in the use of imported raw materials. The import content of raw materials used by local industries rose from 66 per cent in 1977 to 78 per cent in 1978 and to 82 per cent in 1979. The increasing dependence of industry on imported raw materials has reversed the earlier trend towards greater utilisation of local raw materials. (2)

At a time when there was a severe shortage of foreign exchange to finance imports of raw materials and machinery Gunnar Myrdal compared the situation to "driving a car with the accelerator pushed to the floor but with the brake on". (3) The increasingly heavy dependence on imported raw materials is fraught with danger.

Although growth in real terms in industrial output was expected to increase from the low level of 4 per cent in 1979 to 8 per cent in 1980 it became apparent last year that local industries were finding it increasingly difficult to withstand competition from imports. No survey had been carried out to ascertain how many industrial concerns had closed but the Minister of Finance in a guarded statement in his Budget Speech said "There are certain problems arising from the liberalisation of imports which adversely affected certain categories of local industries. These are being looked into". In the taxation proposals the only concession allowed was that certain export-oriented industries which had not been able to obtain the full benefit of the five year tax holiday were made eligible for it.

While petroleum products and textiles are the biggest foreign exchange earners both of course have a very high import content. Another noteworthy feature is that in the case of petroleum products 51 per cent of the increase in value was due to increases in prices. Naptha exports increased 46 per cent in 1979 in quantity but the increase in value was 187 per cent.

In the case of textiles the country still remains a net importer and there has been a sharp increase in imports with the liberalisation of imports. Textile imports increased from Rs. 531 million in 1978 to Rs. 1,536 million in 1979. The weakness of statistical data in Sri Lanka is seen in the statement in the Central Bank's *Review of the Economy* that while "a significant share" of imports may have been used by textile industries within the I.P.Z. or outside "no breakdown" is available.

Many of the problems of industrialists remain unresolved. They range from the need for greater tariff protection to a lack of credit facilities at more favourable terms than those available and the overall problem of an inadequacy of capital which is flowing into more lucrative lines such as the import trade, tourism, and services or even government savings schemes. The Ceylon National Chamber of Industries in representations to the Government has stated that local manufacturers have to pay import duty on machinery and materials, income tax at 50 per cent,dividend tax at 33½ per cent, business turnover taxes from 5 to 15 per cent, and 20 per cent interest on borrowings. Foreign manufacturers who dump goods here are exempt from all such taxes and have no difficulty in borrowing at low rates of interest. (4)

Even in tariff charges consumer interests generally prevailed over those of manufacturers and the Central Bank has observed that "consumer interests seem to have over-ridden the possibly more important long-term objectives of expansion of local production. Since changes so far have been of an ad hoc nature there is an urgent need for a complete overhaul of the structure of import duties on products and goods produced locally.

In Zimbabwe where a number of import-substitution industries flourished during the sanctions that were imposed on Mr. Ian Smith's Rhodesia the new Government led by Mr. Robert Mugabe has afforded protection to some of these industries such as textiles which would have been unable to compete with cheap imports. Although the circumstances are not the same there are similarities in the position of those who pioneered import substitution industries in Sri Lanka and in Rhodesia as Zimbabwe was then known.

That the tilt in policy is in favour of the consumer is reflected in the statement made by the Minister of Industries and Scientific Affairs, Mr. Cyril Mathew to the National Chamber of Industries in August 1980 when he said "We have to place the consumers interests uppermost in our minds and we must not make our consumers to suffer merely because you have failed to manufacture quality products." (5)

The Minister did not indicate who was going to judge whether industrialists were producing quality products. In the long run it will be consumer choice or preference that will determine whether the industries that were opened under the umbrella of protection will survive but there is the possibility that industries producing quality products at fair prices can be swamped by the dumping of goods mass produced in other countries by multinationals.

Another problem which has intensified recently has been the increasing concentration of industry in Colombo and its environs. With about 80 per cent of industries located in the Colombo district the Government decided that no new industries could be opened in Colombo except with special permission from the Urban Development Authority even for expansion of existing units.

TOURISM

The story of tourism in Sri Lanka has been one of sustained success ever since the President, Mr. J. R. Jayewardene, who was then Minister of State in the late Mr. Dudley Senanayake's Cabinet from 1965 to 1970 and was in charge of tourism predicted that tourism would replace tea as the country's main exchange earner.

In the mid seventies there were some doubts whether the momentum of the preceding years could be maintained in view of the setbacks caused by the insurgency of 1971 and the oil price hikes in 1973. These setbacks proved temporary and ever since then tourism has been the fastest growing sector of the economy.

From every point of view the rates of growth are encouraging. In 1965 a total of 19,781 tourists was recorded. In 1979 there were 250,164 tourists and in the first six months of 1980 there were 160,776. In December a Swedish nurse became the 300,000th tourist. The projection for 1984 is 500,000.

There is talk of a ceiling being imposed at the 500,000 level but how this will be enforced, assuming the targeted arrivals are reached, remains to be seen. Sri Lanka can hardly slam her entry doors shut against arrivals. "I do not know how to impose this limitation on tourist arrivals as Sri Lanka is one of the most beautiful places in the world" the Minister of State, Mr. Anandatissa de Alwis told a seminar on tourism in June, 1980. (6)

Official returns of foreign exchange earnings from tourism show an increase from a mere Rs. 6 million in 1966 to over Rs. 1,000 million in 1979, but the latter figure is distorted by the unification of the currency which took place in 1977. Even in terms of SDR's however there has been an annual growth rate of 40 per cent between 1976 and 1979. Gross earnings from tourism increased by 40 per cent from Rs. 750 million (SDR 38 million) in 1978 to Rs. 1,053 million (SDR 53 million) in 1979 mainly on account of the increase in tourist arrivals.

In gross terms tourism ranked fifth as a foreign exchange earner in 1979 after tea, rubber, coconuts, and petroleum products but in net terms it was fourth since the petroleum refinery industry has a heavy import content. In the near future tourism should displace the coconut industry as the third highest foreign exchange earner. (7)

In the first half of 1980 foreign exchange receipts from tourism were about Rs. 880 million which was not only 34.7 per cent more than in the corresponding period for 1979 but over four fifths of the total earnings in 1979. The healthy trend of tourist receipts being ahead of tourist arrivals is being maintained.

That tourism has become a major source of employment both directly and indirectly is seen in the fact that at the end of 1979 about 18,000 persons were engaged in the tourist trade directly and about 22,000 indirectly. It is expected that by 1984 about 100,000 persons will be employed directly or indirectly in the tourist trade.

While tourism is now a major source of employment to Sri Lankans it is a curious fact that posts at the top in the big hotels from managers to chefs are held by foreigners. Mr. de Alwis speaking at a seminar organised by the Ceylon Hotels Corporation said "Sri Lanka did not have a single Sri Lankan who could manage a big hotel" but voiced no dissatisfaction on this score. (8)

Of course there are still questions to be resolved. Despite the tightening of procedures, is the country gaining as fully as it should in terms of foreign exchange earnings? Is the country attracting the right type of tourist? And is the tourist invasion causing a great deal of cultural pollution as seen in the hippie colonies that have sprung up along the south-west and eastern coasts? What begins with tolerance often ends with acceptance to the point of imitation. Mr. de Alwis in his address at the World Tourism Conference in Manila in October, 1980 said the tourist industry should abandon purely monetary motives and work for a sharing of cultures. The experience of countries with a longer history of tourism than Sri Lanka is that it is the materialist culture of the West and the most decadent aspects of this culture that are spread by tourists. (9)

Mr. S. N. Chibb, well known in Sri Lanka as Director-General of the Department of Tourism in India from 1956 to 1966 who is now a consultant to the Oberoi Group cites Sri Lanka in a recent study as a country in which only one quarter to half of what a tourist spends is retained in the country. In a detailed analysis of tourism in the Third World he refers to studies by the German Development Institute and the U.N. World Tourism Organisation which showed that when a West German tourist paid 2,000 D.M. for a holiday in Sri Lanka only about 25 to 30 per cent of what the tourist spent finally came to Sri Lanka. The bulk of the money went to retailers and wholesalers of tours and the carrier, whether a scheduled airline, or a charter operator. (10)

The Tourist Board adoping a different method of computation based on actual expenditure in Sri Lanka has estimated that the foreign exchange costs of servicing tourists is 22 per cent of gross foreign exchange receipts and that 78 per cent of expenditure by tourists therefore accrues to the benefit of the country.

It has been found that average expenditure by tourists in Sri Lanka in recent years was around 25 U.S. dollars per day whereas in 1977 average expenditure by tourists in the Philippines was 45 dollars a day and in Singapore at 58 dollars a day. Tourist expenditure was higher than even in many Western countries. (11)

On the question of the type of tourists who come to Sri Lanka the Minister of Finance and Planning, Mr. Ronnie de Mel himself has said the country should aim at the qualitative type. "We are not getting the right type of tourists – the affluent types" he said. (12)

West Germany and France provided 32 per cent of the tourists who arrived in 1979 while all countries in Western Europe provided 65 per cent of arrivals.

Soaring land prices and ever increasing costs of construction have been the main constraints in the construction of hotels and the consequent shortage of rooms which tour operators say has assumed critical proportions resulting in hotels escalating occupancy charges which hoteliers in turn attribute to increased operational costs.

In 1967 there were 770 rooms in hotels approved by the Tourist Board.

By 1975 there were 76 hotels with a total of 3,673 rooms.

At the end of 1979 there were 5,999 rooms in establishments approved by the Tourist Board. 12 hotel projects begun in the first half of 1980 will provide an additional 817 rooms but with tourist arrivals expected to reach the 500,000 mark in 1984 it is estimated that 6,000 more rooms are needed.

There is already a shortfall, or shortage, in hotel accommodation which is greatest in Colombo which in 1980 had 1,320 rooms which was about 400 short of requirements.

The current and future demand for rooms are indicative of the pessimism that prevailed in the mid seventies.

As recently as in April 1977 the author of a study published in *Staff Studies* a publication of the Central Bank stated that a problem of "over capacity" seemed to be emerging in the tourist industry and that the rate of growth of investment would have to be curtailed. The *Economic Review* of the People's Bank in reproducing this article also included in the same issue a feature on hotel development in Manila – "Empty rooms, Soaring debts" presumably as a warning to the tourist authorities in Sri Lanka. The article said there was "a clear need to slow down investment in the industry until the capacity already created could be utilised more intensively." (13)

New tourist hotels have changed and are changing Colombo's skyline.

One of the biggest hotel projects now under way is the construction of the 560-room Taj Hotel expected to be completed in 1982, and to be built on the site of Samudra which was earlier occupied by the Colombo Club.

A Hilton Hotel with 750 rooms is due to be built on the Echelon Square complex while the 500 room Sheraton is due to be built next to the Taj on the site where the Night Bazaar was held and where the Labour Department had earlier been accommodated. The 200 room Ramada is to be built within the new parliamentary complex at Jayewardenepura.

Meanwhile the Oberoi and the Inter-Continental are each adding 200 rooms to their room strength, and the proposed floating hotel will have 270 rooms.

The inability of local entrepreneurs to provide half the capital costs of construction of new hotels has led to a relaxation of the earlier stipulation of 51 per cent local equity capital. Foreign investors are now allowed to hold up to 80 per cent of the equity capital. The ten year tax holiday originally allowed to companies whose equity capital exceeded Rs. 500 million has been reduced to the Rs. 100 million level.

The potential for the growth of tourism in Sri Lanka with its estimated 500,000 tourists in 1984 can be gauged from the achievements of other Asian countries in 1978 when Hawaii had 3,950,000 tourists; Singapore 2,247,000, and Hongkong 2,213,000. There were seven countries in the Asian region which had over a million tourists. The other four were Malaysia, Taiwan, Japan and South Korea. In 1978 the international tourist population was 252 million and the number is growing at 4 per cent a year. (14)

THE GEM INDUSTRY

Historically the gem industry is Sri Lanka's oldest and most renowned. Whether King Solomon won Queen Sheba's affections with sapphires from Sri Lanka is a tantalising poser but certainly Pliny in the first century; Fa-Hien in the fifth; Marco Polo in the thirteenth; Ibn Batuta in the fourteenth; and Robert Knox in the seventeenth provide evidence of the glitter and fame of Sri Lanka's gems. Export earnings were negligible however until the establishment of the Gem Corporation in 1972. In 1947 gem exports realised a mere Rs. 37,785 and in 1971 export earnings were only Rs. 3,446,286. The picture changed dramatically with the formation of the Gem Corporation in 1971.

In a single year exports rose from Rs. 12,331,000 in 1972 to Rs. 140,785,000 in 1973. The peak level of exports was Rs. 531,000,000 in 1978 but with the abolition of the Convertible Rupee Account Scheme there was a marked drop in exports in 1979 which totalled Rs. 490,000,000.

It was an open secret that gems were smuggled out of the country prior to the formation of the Corporation which claimed to be "unpolluted, reliable and honest" in its overseas advertising campaigns. It was not long before scepticism over these claims proved justified. In 1976 a Committee of Inquiry was appointed to inquire into the report of a panel of officials of the Ministry of Finance that some officials of the Corporation had paid Rs. 24 million in excess of the actual value of stocks and the Committee found that there had been heavy losses due to over-valuing of inferior gems. (15) The termination of the C.R.A. scheme was a major setback to the industry and it was for this reason that the Minister of Finance and Planning, Mr. Ronnie de Mel announced in his Budget Speech on November 14, 1979 that the Government intended to start gem auctions (an idea which I had myself advocated as Chairman of the Ceylon Chamber of Commerce) to be conducted by the Ceylon Chamber of Commerce. Under the C.R.A. scheme the "crapitalists" – as a journalist called them-enjoyed tax reliefs, permission to travel abroad, and to import luxury goods such as cars whose import had been banned. The abolition of Business Turnover Tax of 5 per cent in April 1978 failed to stop the downward trend in exports through official channels and the value of exports dropped from Rs. 531 million in 1978 to Rs. 490 million in 1979, despite increased mining activity and the rise in prices with inflationary trends.

In announcing the Government's proposals for a package deal for the gem industry Mr. de Mel quite rightly drew attention to a forgotten factor or forgotten man – the actual miner who had always been at the mercy of exploitative middlemen and mudalalis.

Prior to the inauguration of the auctions it had become apparent that despite the efforts of the Corporation there was still a very high incidence of smuggling. This was not as severe as in the years immediately prior to the establishment of the Corporation when gems worth about Rs. 300 million were smuggled out annually but almost daily reports in the newspapers of detections at Colombo airport showed that smuggling was taking place on a considerable scale.

The State Gem Corporation Act had contained provision for the holding of auctions. In 1979 the Gem Corporation issued 907 permits for gem auctions and 208 permits in the first half of 1980 but these auctions were almost private affairs which were not advertised and were usually held in the homes of the licensee. In addition there was no open bidding and buyers (including the Corporation) had to submit bids on chits with the auctioneer announcing the highest bidders in the presence of the participating bidders. The biggest defect of these auctions was that the private dealers formed themselves into rings. They decided among themselves on purchases at artificially low or depressed levels. After the auctions they re-auctioned their acquisitions and shared the difference in price between the prices at the auction and the re-auction. The miners and sellers of gems were completely at the mercy of a ring of dealers to whom they sold gems in confidence to avoid taxes. It was for this reason that the sale of gems at the auctions was exempted from both income tax and Business Turnover Tax. In addition the following tax exemptions are granted in respect of gems sold through the auctions (a) profit from the export of gems is exempted from income tax (b) profits realised by authorised dealers from gems is exempt from income tax (c) dividends paid from the proceeds of profits at gem auctions will be exempt from tax in respect of shareholders of companies and (d) the commission received by brokers from the sale of gems at auctions is exempt from income tax.

August 23, 1980 will be a red letter day in the history of the gem industry for it witnessed the first official auction at the Ceylon Chamber of Commerce. Prior to the auction the Sri Lanka Export Credit Insurance Corporation formulated a scheme to guarantee commercial bank advances to the trade for the purchase of gems and to insure exporters against non-payment by foreign buyers. The gem auctions as Mr. de Mel observed at the first such auction have brought into the open what had earlier been conducted in "a peculiar, furtive, covert sort of a way." The auctions have primarily benefited the miners and the workers who, as Mr. de Mel said, had no place in the state of affairs that prevailed earlier. Newspapers have cited specific cases of the prices realised at the auctions which were several hundred times more than what the miners would have received if they had sold their gems privately to dealers, or mudalalis as in the past. (16)

At the very first auction where gems valued at Rs. 75 million were on offer, sales exceeded Rs. 12 million.

The fact that the holding of these auctions was entrusted to the Chamber of Commerce is an indication of the Government's confidence that the private sector can be trusted to perform any undertaking efficiently and honestly.

The gem auctions in Colombo put an end to the "Thai connection" in the purchase of geuda gems which are chemically treated to resemble blue sapphires. Earlier purchases were made in the blackmarket with payment being made to accounts held abroad by gem merchants. The export of geudas is allowed if they were purchased at the auctions and payment was made in foreign currency. (17)

In November 1980 another milestone was reached when the first auctions were held in the gem producing town of Ratnapura.

In September 1980 exports for the year at Rs. 480 million were almost equal to total exports last year and the export figure for 1980 may well exceed Rs. 600 million which could be a harbinger of new records to come.

From gems to jewellery is a logical move and a mission from the Sri Lanka Jewellery Exporters Association visited six E.E.C. countries to assess export potential. According to a spokesman of the Association Sri Lanka which earned Rs. 490 million from the exports of gems in 1979 could earn about Rs. 2,000 million from the export of jewellery to E.E.C. countries alone. One of the first steps being taken in this connection is the establishment of a Goldsmith-Silversmith-Design and Production Training School as Sri Lanka lacks expertise at every stage of the business from the cutting and polishing of gems to the design and manufacture of jewellery.

In addition to the Central Bank's imports and sales of gold exporters of gems are to be allowed a percentage of exports for the import of gold while the Bank of Ceylon and the People's Bank are to import silver and platinum.

This is in keeping with the Government's intentions as announced in the Budget in 1980 when Mr. de Mel said that manufacturers and exporters of jewellery could avail themselves of the existing tax concessions up to 1983 for small and medium scale industries and that exports of jewellery would be liable to B.T.T. at only 2 per cent. The Gem Corporation has already entered the jewellery manufacturing business with the establishment of a small scale factory and has internationalised the gem mining trade by farming out large extents of land to British, Australian, and Singaporean mining concerns. The Gem Corporation will receive 50 per cent of profits after the expenses of the mining companies have been recouped.

In July 1980 the Corporation signed agreements with eight foreign mining companies for large-scale mechanised mining in the Accelerated Mahaweli Project area. Mining operations will initially be conducted at six sites totalling 32,000 acres which will ultimately be innundated under the Mahaweli scheme and a gradual transfer of technology, equipment and expertise is to be effected. The introduction of mechanised mining will be a revolutionary innovation in an industry where primitive methods, rituals, and observances still hold sway in both traditional and new mining areas.

As invariably happens in Sri Lanka the newspapers are ahead of the times with their forecasts of the establishment of Gem Reserves and of Sri Lanka being a gem sales centre for Asia but the Government, and the Minister of Finance in particular have certainly succeeded in making the gem trade both respectable and lucrative. The industry lost its sparkle for a time but both present trends and future prospects are bright.

REFERENCES

1. Ceylon Daily News. August 28, 1980.
2. Central Bank. Review of the Economy. 1979.
3. Techno-economic survey of industrial potential in Sri Lanka. Dr. Neil Bandaranaike (I.D.B. Colombo 1973)
4. Ceylon Daily News. July 28, 1980.
5. Ibid.
6. Ceylon Daily Mirror. June 6, 1980.
7. Central Bank. Annual Review 1979.

REFERENCES (Contd.)

8. Ceylon Daily News. August 19, 1980.

9. Sun. October 2, 1980.

10. Third World Quarterly (Vol. 2. No. April 1980 U.K.)

11. Tourism in Sri Lanka. The First Decade. Ministry of State 1978.

12. Ceylon Daily Mirror. August 30, 1980.

13. People's Bank Economic Riview. November/December 1977.

14. Asiaweek. June 6, 1979.

15. People's Bank. Economic Review July 1980.

16. Ceylon Daily News. August 25, 1980.

17. Sunday Observer. October 12, 1980.

Chapter 8

FOOD SELF-SUFFICIENCY — receding horizons

Paddy which was the basis of the economy in ancient times is still the foundation of the rural economy.

The myth that Sri Lanka exported rice in ancient times is resurrected in season and out with futuristic claims that Sri Lanka will "soon" export rice.

Of Sri Lanka's food and commercial crops paddy was the least affected by the land reforms as most holdings are miniscule. About 450,000 cultivators operate on less than one acre of land. In the hill districts of the wet zone 70 per cent of the farmers own less than one acre. 44 per cent of the cultivators in the entire island own plots below half an acre. About 225,000 farm workers own no land at all and only 2 per cent of the paddy farmers own extents over 5 acres. (1)

If self-sufficiency in rice can be achieved through newspaper headlines then Sri Lanka would by now have become an exporter of rice. The newspapers of course only reflect the unrealistically optimistic forecasts of politicians, officials, and even visiting missions.

As early as in 1968 a visiting World Bank team predicted that Sri Lanka would be self-sufficient in 1977. In the same year the then Prime Minister, Mr. Dudley Senanayake visualised Sri Lanka as an exporter of rice. In a study published in Paris in 1970 the O.E.C.D. stated that by 1975 "Ceylon could be very close to food grain sufficiency". (2)

In the simplest terms the story of rice production in Sri Lanka in the post-war period has been that production has failed to keep pace with the increase in population. Per capita consumption has actually fallen in the last twenty years from 114 kilograms annually to 103 while in the same period flour consumption rose from 20 kilograms to 40.

Rice production in the main Asian exporting countries was disrupted by the war and Sri Lanka found herself deprived of imports from Burma, India, Egypt and Brazil. Flour was imported to meet the nation's requirements of food although until then flour imports had been almost negligible. The import per capita was only 3.5 kilograms per year in the period 1931 to 1941. Between 1942 and 1946 imports rose from 18 kilograms to 40 kilograms per individual. (3)

Rice production in Burma did not return to pre-war levels until the early fifties and by then Sri Lanka was beginning to feel the impact of its rapid growth in population. In 1967 the year preceding the forecasts of self-sufficiency in rice imports of flour exceeded those of rice for the first time in the post-war period.

In the years of the so called "Green revolution" other countries ranking from the Philippines to Mexico attained self-sufficiency and became exporters but the "Green revolution" simply by-passed Sri Lanka.

By giving the private sector incentives to take to rice production the Philippines became self-sufficient in 1978. In 1979 rice exports earned 45 million U.S. dollars and in 1980 exports were expected to yield 78 million dollars.

Mexico had the benefit of the advice of Dr. Norman Borland, a Nobel Peace Prize winner and changed roles from an importer to an exporter of wheat. (4)

Closer home in India production of grains increased from 10.5 million tons in 1965 to 34.7 million tons in 1979

South Korea aimed at self-sufficiency in 1968. By 1977 she exported 70,000 tons of rice to Indonesia, recording a 47 per cent increase in output in 10 years. (5)

How, when, and where did Sri Lanka lose its way on the road to self-sufficiency?

In the late sixties Sri Lanka advanced on the road to self sufficiency as the following table of annual output shows :–

1965	36	million bushels
1966	46	" "
1967	55	" "
1968	66	" "
1969	66	" "
1970	77.5	" "

In its five year term the late Mr. Dudley Senanayake's Government more than doubled production but its action in halving the ration from two measures to one which was given free was an important factor in its defeat in the 1970 general election.

With the change of Government in 1970 there were changes both in organisation and policy in respect of rice production. The special scheme was cancelled and the powers and authority that had been vested in Government Agents were entrusted to Political Authorities.

Mrs. Bandaranaike's Government announced a Five Year Plan in 1972 and this too visualised self-sufficiency in rice. The Plan never got off ground and rice production actually dropped. Output fell to 55.3 million bushels in 1973.

Failure at home did not inhibit the Minister of Agriculture and Lands, Mr. Hector Kobbekaduwa from telling the world of Sri Lanka's spectacular "success."

At the 17th annual sessions of the F.A.O. at Rome in 1973 Mr. Kobbekaduwa said "My government has taken the courageous, difficult, and politically sensitive decision to stop the importation of nearly every single item of food which can be grown successfully in our own country". He went on to claim that "The immediate impact of these decisions has been to provide tremendous price incentives to the producer along the entire range of crop and livestock activities. The farmers in my country, like those everywhere, are responding magnificently to the economic climate and price signals . . . . we will emerge from this crisis as victors and not vanquished at both the national and international levels". (6)

The very next year there was a global food shortage. At the World Food Conference held in Rome the United Nations included Sri Lanka among 28 countries which were regarded as being "the most seriously affected".

Mrs. Bandaranaike as Prime Minister launched a "Production War" which again did not get off ground.

Rice production has picked up considerably however between 1977 and 1980.

The 1977 production of 80.4 million bushels (54.8 in Maha and 25.6 in Yala) was 34 per cent above the 1976 figure of 60 million bushels and was also the highest recorded since 1970.

In 1978 a record output of 90.6 million bushels (61.6 Maha and 29 Yala) was recorded.

Favourable weather conditions, increases in the areas sown, harvested, and irrigated, coupled with greater credit facilities, increased use of fertilizers, and an increase in the guaranteed price from Rs. 33 to Rs. 40 the previous year all contributed to the peak level of production. The GPS price of Rs. 40 however was far below the cost of imported rice which was Rs. 61 in 1979 and around Rs. 65 in 1980. (7)

In 1979 production at 91.9 million bushels (Maha 66.8 and Yala 25.1) was marginally above the 1978 output. The marked drop in the Yala crop was due to adverse weather which resulted in a smaller area being sown.

There was a tightening of agricultural credit which resulted in a drop of cultivation loans from Rs. 448 million in 1978 to Rs. 74 million in 1979.

The increase in production in 1979 was due to an increase in acreage under cultivation and an increase in yield per acre which at 54.7 bushels per acre was the highest recorded. The increase in land under cultivation was largely due to an additional 20,700 acres of land becoming irrigable under the first stage of the Mahaweli project.

In 1980 the Maha crop was 68.5 million bushels or 1.7 million bushels more than the previous highest figure in 1979 and the output for the entire year is expected to be over 100 million bushels.

The target for 1981 is 114 million bushels.

The liberalisation of imports with a much greater availability of tractors and agro-chemicals; the increased subsidy on fertilizers; successful research into high-yielding varieties; and an increase in acreage under cultivation have been the main factors in the upward spiral of production.

As against 700 four-wheeled tractors imported in the entire period from 1970 to 1977, 6,907 four wheeled tractors, and 7,704 two-wheeled tractors were imported between 1977 and 1980.

In September 1979 the Government increased the subsidy rates from a uniform 50 per cent to 85 per cent for other fertilizers. Fertilizer consumption however has remained low and is only about one third of the levels needed to reach optimum production.

In September 1980 the Secretary, Ministry of Agricultural Development and Research said more than half of Government's subsidy of Rs. 800 million on fertilizers was on rice fertilizers and posed the question whether the Government would be able to bear the increasing financial burdens that would be involved with increases in prices. The Central Agricultural Research Institute is now conducting experiments with fertilizer substitute such as green leaves and paddy straw and also in finding alternative nitrogen fertilizers which are more economical than urea. (8)

Much of the success in increasing yields has been due to the success of experiments at the Central Rice Research Station at Bathalagoda.

In the sixties the imported H varieties which replaced traditional types had a potential of 90 to 140 bushels per acre under ideal conditions. Sri Lankan rice scientists have now developed Bg varieties with yield potentials of 140 to 200 bushels and these are also resistant to indigenous pests and diseases, which were hitherto controlled only by the use of pesticides which give rise to other problems. Bg varieties now cover about 60 per cent of the total rice extent.

Sri Lanka is still a long way however from the "second Parakrama Bahu era" that politicians say is round the corner.

At a symposium organised by the Department of Agriculture in October 1980 participants showed that both tractor costs and labour costs had doubled in recent years and costs will keep on increasing.

Although the costs of fertilizers and agro-chemicals have increased the steepest increases have been in farm power and labour. The fuel crisis and the increasing demand for tractors and labour in various construction and development projects have had a considerable impact on the cost of tractor tillage and labour wages.

The solutions seem to lie in less expensive low energy sources of farm power and in a greater use of high-yielding varieties that are less demanding in the use of fertilizers.

In attempts to improve cropping intensity successful experiments have been conducted in obtaining two crops a year during the Yala season at Walagambahuwa and this technology is now being extended to other areas in the dry zone.

The prevention of the wasteful use of water has been a major problem. In 1978 a World Bank team noted that "Water Management is by far the most challenging obstacle to output increases", and in 1979 a team from the International Fund for Agricultural Development stated that "Poor water management is not only a major cause of the country's high food imports but hits hardest the small farmer who has little safety margin to fall back on if his crop is a partial failure".

In 1979 the country imported 211,500 tons of rice at a cost of Rs. 890 million. In 1980 the Government contracted to import 300,000 tons of rice at a cost of Rs. 1056 million. The sober view of the long-term prospects is that there is no short cut to self-sufficiency which would need a national average of 75 bushels per acre. As the Central Bank has observed there is still a large gap between potential and actual yield and "in a land scarce country maximisation of production per unit of land is of the utmost importance.

In the Budget debate in 1980,the Minister of Agricultural Development and Research Mr. E.L. Senanayake said that there would be no need to import a single bushel of rice in 1981 but in the same speech he also said local production would meet 85 per cent of the country's requirements. Collectively the Government has planned for imports of at least 80,000 tons of rice in 1981.

Over the years there have been regular increases in the price for paddy under the guaranteed price scheme and in recent times there have been suggestions – as at the 1980 Rice Symposium – that the guaranteed price should be increased. Does the G.P.S. really benefit the farmer for whom it is intended?

Recent studies have shown that the increased prices paid have been offset by the increase in the cost of inputs. The chief beneficiaries of the increased prices have been tractor owners and the suppliers of inputs. In addition higher G.P.S. prices have resulted in higher prices for rice which have reduced the real value of the earnings of rural workers. "Cost of production increases have also contributed to increased indebtedness of small farmers and speeded up their joining of the ranks of landless labourers" says P.J. Gunawardena. Mr. Gunawardena has shown that while the price of paddy was increased from Rs. 14 per bushel to Rs. 33 (an increase of 135 per cent) the daily wages of male workers in the Hambantota district increased by only Rs. 2 or 40 per cent over the earlier wage. Again after when the price of paddy was increased by another Rs. 7 (or 21 per cent) wages went up only by Rs. 1 or 15 per cent. (9)

Another question that has been raised by foreign observers is whether the guaranteed price acted as a disincentive to higher production. It can, and has been argued, that the guaranteed price was actually a curb on higher production because farmers were satisfied with what they received at their prevailing levels of production. The guaranteed price for paddy may also have discouraged the growth of crops for which there was no guaranteed price. In Brazil the Coffee Institute at one stage reduced prices for coffee and encouraged growers to cultivate maize, cotton, and other crops.

In his Budget Speech on November 5, 1980 the Minister of Finance announced a long overdue increase in the guaranteed price from Rs. 40 to Rs. 50 per bushel. The price in the open market was then Rs. 70.

FISHERIES

Sri Lanka's record in fisheries, milk production, and subsidiary food crops has been dismal in recent years.

One-sixth of the country's fishing fleet was destroyed in the cyclone of November 1978 and in the following year the Minister of Fisheries announced a five year "Master Plan" to double production from 170,000 mt. tons to 350,000 mt. tons by 1983. If the plan is successful then per capita consumption is expected to increase from 13 kilograms to 23 kilograms annually.

Self-sufficiency in fish was originally aimed at in The Ten Year Plan of 1959 and the Fisheries Corporation which was established in 1964 formulated yet another Ten Year Development Plan which accorded "the highest priority" to "the export of all exportable varieties of fish".

The National Ten Year Plan envisaged a production level of 196,000 tons in 1968. Twelve years later production is still far below the anticipated 1968 level. The Fisheries Corporation's 10 year Plan of 1965 envisaged an increase in production from 90,000 tons that year to 678,000 tons in 1975. The Five Year Master Plan formulated in 1979 now aims at an output in 1983 which will be only slightly more than half of the output that was to have been achieved in 1975.

A People's Bank survey in 1977 stated that "The story of unrealistic targets set by our planners kept repeating itself right up to the last Five Year Plan of 1972–1976". (10)

In 1980 fiscal and tax incentives were offered to the private sector and this coupled with the liberalisation of imports of fishing gear again generated official optimism. In October 1980 the Minister of Fisheries, Mr. Festus Perera launched a mechanised fishing boat under the East coast fisheries development project undertaken with aid from the Netherlands and said "The day of exporting local fish is not very far".

In the first six months of 1980 production at 82,212 tons was 12 per cent below target. (11)

LIVESTOCK

Milk production at 198 million litres in 1979 was 7 per cent lower than in 1978. The drop was attributed to a depletion of the national herd by increased slaughter. The country's failure to produce its requirements of milk resulted in imports valued at Rs. 479 millions in 1979. The activities of the Milk Board (as seen in the section on Corporations chapter 10) have created such a stink that a weekly journal called it "the nation's number one scandal." (12)

The Central Bank *Review* for 1979 has a section entitled "Fish and livestock production" in its chapter on Agriculture which contains just three paragraphs and two tables.

SUBSIDIARY FOOD CROPS

Twice in the seventies the local growth of subsidiary foodstuffs suffered disastrous consequences owing to the intervention of external factors and the influence of external agencies.

In 1974 faced with a shortage of rice the government launched an intensive drive to encourage the cultivation of yams, sorghum, maize, millet, etc. but even before the harvests were reaped the U.S. Government offered Sri Lanka 100,000 tons of flour on concessionary terms. With the cheap availability of flour the market for subsidiary foodstuffs collapsed. Under the present Government the policy of the liberalization of imports has again had extremely adverse effects on local production.

In 1978 the acreage cultivated with 18 subsidiary food crops declined considerably and only potato cultivation showed an increase. The biggest decreases were in manioc, maize, chillies, red onions, kurakkan (finger millet) and cow-pea. The Central Bank noted that while there may have been some shift towards paddy production the cultivation of manioc and kurakkan had declined owing to increasing availability of subsidised flour and rice. It also noted that imports of chillies and onions for buffer stocks may also have discouraged producers although in fact the effect of imports had been only in lowering the profit margins of producers.

The decline in acreages under cultivation and output continued in 1979 and was highest in the case of manioc, maize, kurakkan, chillies and sweet potatoes. Food imports under the buffer stock schemes, the subsidies on rice and flour, inadequate marketing facilities, and the higher cost of inputs were attributed as the main causes.

Even official sources (other than the Ministry of Agricultural Development and Research) have been forced to admit that in the majority of the seventeen subsidiary food crops the drop in production had been worse than in 1978. Except for green gram, potatoes, and gingelly the decreases in production of the other 14 have ranged from 13.2 per cent to 80.4 per cent compared with the figures for 1978, and acreages under cultivation have also dropped except in the case of potatoes and cowpeas. (13) The Sri Lanka Broadcasting Corporation which specialises in selective reporting told incredulous listeners a few days before Christmas 1980 that vegetable prices had dropped owing to the harvests coming in from the H area of the Mahaweli scheme and the scheme was also supposed to make Sri Lanka self-sufficient in subsidiary foodstuffs.

As a foot-note to Sri Lanka's failure to utilise its abundant sources of rain and fertile soil it is of interest to note that Israel's scientists are devising a process of growing crops without soil or rain. Under a system known as "aeroponics" plants are grown on a bed of foam plastic and fertilised by a spray of nutrients. (14)

A correspondent of *The Economist* writing about rice production in Japan put the word farmer in quotes for everything is done with the aid of gadgets from sowing "at lightning speed in perfect rows at just the right depth" to ploughing, harrowing, hauling, reaping, binding, threshing, to protection from the elements and protection from birds. Result? "A Japanese farmer now grows 1.5 tonnes of rice per acre in 28 days of light work compared with the 900 kilos he used to get after 100 days of hard work". (15)

In Sri Lanka it has been a case of "Back to the buffalo" owing to the escalating costs of tractors and fuel.

In November 1980 Mr. Senanayake moved a supplementary estimate for Rs. 75 million for spares for tractors gifted by Japan. A T.U.L.F. member, Mr. P.S. Soosaithasan who said he was speaking as a practical farmer said it would be cheaper for the Government to give cultivators buffaloes, free. He was supported by other M.P.'s on both sides of the house who said buffaloes apart from not needing spare parts also provided milk and manure and the Minister of Lands and Land Development finally said the Government had accepted in principle the need to turn away from tractors to buffaloes. (16)

REFERENCES

1. Report of the Special Programming Mission to Sri Lanka. International Fund for Agricultural development. (Rome. July 1979)

2. Agriculture in Ceylon until 1975 (O.E.C.D. Paris 1970)

3. Implications of Government Intervention in the Rice Economy of Sri Lanka. Neville Edirisinghe and Thomas T. Poleman. (Cornel University New York. 1976)

4. The Times (London) August 1, 1980.

5. Asiaweek. May 5, 1978.

6. Sri Lanka and the International Food Crisis (A.R.T.I. Colombo 1976)

7. Central Bank. Review of the Economy. 1979.

8. Ceylon Daily News. September 25, 1980.

9. Employment, Resource Mobilization and Basic Needs through local level planning. Report of a national seminar held in Colombo. May 15.18.1979 (I.L.O Bangkok 1979)

10. People's Bank. Economic Review. August 1977.

11. Performance. January to June 1980. Ministry of Plan Implementation.

12. Tribune. Colombo. October 6, 1980.

13. Subsidiary Food Crops – a worsening situation Ministry of Plan Implementation. May 1980.

14. Ceylon Observer. September 24, 1980.

15. The Economist (U.K.) November 1, 1980.

16. Ceylon Daily News. November 21, 1980.

Chapter 9

EMPLOYMENT AND THE BRAIN AND BRAWN DRAINS

Studies by the International Labour Organisation have indicated that at least one billion new jobs need to be created in the Third World by the year 2000. How many jobs will have to be created in Sri Lanka by the year 2000 will depend on the success of the development schemes undertaken by the present Government and the rate of growth in population.

The ILO Mission headed by Professor Dudley Seers which visited Sri Lanka in 1971 said Sri Lanka would have been poised to reach full employment in the eighties if only a successful family planning campaign had been launched together with the malaria eradication scheme in the forties, but in Sri Lanka, as in other developing countries, the stage has now been reached where even if substantial progress is made in family planning with the existing backlog in the provision of jobs and with millions due to enter the labour market in the next two decades no forseeable rates of growth can absorb the built-in increases in the labour force unless growth in the future is associated to a much greater extent than in the past with increasing labour inputs. (1)

"Employment will be the first priority of the Government.

Employment will be the second priority of the Government. Employment will be the third priority of the Government." This was the striking and forceful language used by President Jayawardene to underscore his Government's decision to come to grips with the most crucial problem facing the nation.

In the first place the Government had no precise idea of the magnitude of the unenviable legacy it had inherited. All estimates in the past – all estimates today – are "guesstimates."

The word "unemployment" was first used in the West in the eighteen nineties to indicate the state of persons without fixed incomes. In the broadest terms this covered all persons except those in receipt of fixed monthly, weekly, or daily wages and would cover a range from agricultural peasants to capitalists. As Ivan Illich has said it is the condition in which most people live. This is the case in Sri Lanka too but no one would say that the majority of the people of Sri Lanka are unemployed. The majority of adults are gainfully occupied so how does one define "unemployed"? There has never been a generally acceptable definition although individual analysts and missions have used their own criteria and guidelines in arriving at conclusions that have predictably been divergent.

Paul Harrison, one of the best known exponents of what is known as "development journalism" and author of *Inside the Third World Tomorrow* has shown that unemployment is a question of population growth "surging ahead of progress in investment and technology". He cites the case of Sri Lanka where new jobs were created at the rate of 2 per cent annually in the sixties while the population grew at 3 per cent. (2)

P.J. Richards, who has authored, or co-authored, some of the most incisive analyses of contemporary Sri Lankan problems says that widespread open unemployment is "a fact of life" with the rates recorded being some of the highest in the Asian region. "To cure open unemployment" says Richards "requires an insight into its nature. In a society with no official form of unemployment assistance, work-sharing becomes a major means of making an income. However in Ceylon, for some of the unemployed even access to traditional work-sharing is strictly regulated." (3)

Graham Pyat and Alan R. Roe have noted that if Sri Lanka was a forerunner in matters such as the decline in mortality and in its social welfare services it was a far less enviable forerunner in the nature and scale of its unemployment problem with the economy being unable to generate jobs at anything like the required rate. (4)

Dr. R.K. Srivastava defined the unemployed as those "without work but available for work and willing to work full time if offered work." This is a fairly wide definition but under-employment which is also a widespread phenomenon in Sri Lanka is more difficult to describe. There has been no agreement as to how many hours work, or what income would constitute a dividing line between employment and under-employment.

The 1968 Labour Force Survey stated that nearly 4 per cent of the urban, and 8.6 of the rural male workers had less than 20 hours work a week at the time the survey was undertaken.

In this, as in other crucial aspects of the economy, no real attempts have been made to analyse the causes and the scope of the problem.

As Dr. Laksiri Jayasuriya says "The concept of under-employment, valid as it is, has unfortunately not been studied at all and consequently hardly any reliable information exists as regards the under-utilisation of manpower." (5)

Estimates of the number of unemployed and the number of persons placed in employment after the present Government assumed office have shown marked variations.

The Minister of Finance and Planning, Mr. Ronnie de Mel in his first Budget said that the number of unemployed rose from about 500,000 when Mrs. Bandaranaike's Government assumed office in 1970 to 1,200,000 when it was defeated in 1977. The 1971 Census estimated the number of unemployed at 796,000 while the Five Year Plan visualised provision of employment for 810,000 persons.

After the Jayawardene Government had been in power for just over one year the Central Bank in a Consumer Finance and Socio Economic Survey estimated that the number of unemployed had dropped from 1,200,000 to about 900,000.

The Central Bank stated that the number of employees in government departments had increased by 23,438 in 1978 which was an increase of 5.5 per cent. The number of employees in semi-government institutions had increased by 35,439 or 6 per cent in 1978. In the absence of adequate data in respect of the private sector the Central Bank analysed the number of "active accounts" in the Employees' Provident Fund which showed that there had been an increase of 43,915 accounts of persons in the private sector. (6)

In his convocation address at the University of Sri Lanka on May 31, 1978 the President said that after his Government took up office 125,000 persons had been found employment.

On July 22, 1980 when the Government celebrated its third anniversary the President said "recent statistics and surveys seem to suggest that over 500,000 persons have been found employment."

In other public statements the President has said that the Government hopes to generate at least one million jobs before it finishes its term of office.

One of the main strategies adopted by the Government to reduce unemployment was the replacement of the Employment Exchange with the Employment Data Bank Scheme or Job Banks as they have become known.

After the Job Bank was established the Government stopped advertising vacancies for jobs which carried salaries of less than Rs. 850 a month. Instead each M.P. was given 1,000 forms to be distributed in his or her electorate with instructions to give preference to persons from families in which no one was employed. The qualifications of those who apply are fed into a computer which picks qualified persons for jobs that become available with the final selection being made by panels in the employing institution.

At the last count 40,000 applications from persons with the GCE (O) level had been computerised.

During the general strike of July 1980 government institutions which turned to the Job Bank for persons with technical qualifications or experience were informed by the Ministry of Plan Implementation that persons in a number of categories were not available. The only categories for which the Job Bank could supply personnel were labourers, clerks, Sinhala stenographers and typists, laboratory assistants, midwives, nurses, bus conductors, teachers, store-keepers, and work supervisors. (7)

The lack of an adequate feed-back from Ministries, departments, and corporations on the numbers of vacancies filled from persons sent by the Job Bank has hindered an evaluation of the usefulness of the Job Bank.

According to the Central Bank employment in government departments increased by 33,713 or 5 per cent in 1979 and in semi-government institutions by 89,385 or 14 per cent.

In the case of the private sector where active accounts with the Employees' Provident Fund were used once again as a proxy to measure changes in employment it was calculated that the additional number employed in 1979 was 22,525.

The figure for the private sector does not include employment creation in the non-institutional private sector and in the domestic agricultural sector.

The Central Bank statistics showing a drop in the numbers who found employment in the private sector between 1978 and 1979 from 43,915 by almost half to 22,525 are disproved by statistics collected by the Manpower Planning Division of the Ministry of Plan Implementation and published officially.

According to a survey of employment in the private sector conducted by the Ministry the numbers of jobs advertised in the newspapers increased as follows :–

Period	Number advertised
1977	9154
1978	16469
1979	34055

The Ministry stated that while the number placed in employment in the private sector had gone up considerably its survey of jobs advertised had not included those for employment opportunities abroad and that its survey also did not include "informal" recruitment (Jobs filled by direct recruitment without expensive newspaper advertisements). "If these two are taken into consideration" the Ministry stated "the actual number of job opportunities generated in the private sector would be much higher than what is enumerated in this survey." (8)

The role played by the private sector in employment generation was specifically spelled out by Dr. Wickrema Weerasooria, Secretary, Ministry of Plan Implementation, when he stated that "The positive response from the private sector to the introduction of a package of economic policies, liberal, outward looking, and growth oriented, has enabled a dent to be made even in small measure in the unemployment situation of the country."

In its so-called *Annual Survey of Employment* the Central Bank notes "an acceleration in the exodus of Sri Lankans seeking employment in Middle Eastern countries" and says this will cause "shortages of domestically available skills." It offers the educational authorities the advice that they will have to "undertake a major training programme at the school level." The Bank also says that the experience of other countries is that the return of migratory labour creates "considerable socio-economic problems." Its advice is that the "Resettlement of these workers in productive domestic employment in the near future should, therefore, deserve early attention."

In contrast to the vague generalisations of the Central Bank, the Ceylon Tourist Board provided a detailed and updated analysis of those travelling abroad in search of employment. In October 1980 the Tourist Board stated that 81,356 Sri Lankans had left Sri Lanka in the first seven months of the year to take up jobs abroad. This figure was 10,596 more than for the corresponding period in July 1979. The Board's statistics reveal that an average of about 11,000 persons left Sri Lanka each month last year for jobs abroad. (9)

The numbers involved in the Tourist Board's statistics obviously include a large percentage of persons in employment who are migrating for higher salaries but most of the vacancies thus created will be filled by unemployed persons. Emigration can therefore be regarded as a means by which about 10 per cent of the unemployed obtain employment. Similarly the repatriation of estate workers of Indian origin is also helping considerably to ease the problem of unemployment.

The last three years have seen a slow social revolution in wage rates and salaries.

On September 30, 1980 the *Ceylon Daily News* carried an advertisement calling for the services of a cook on a salary of Rs. 1,000 which is well above what the universities pay junior assistant lecturers.

The Minister of Trade and Shipping, Mr. Lalith Athulathmudali recalled that a State Counsel had told him that his salary worked out to Rs. 34 a day whereas a carpenter or mason earned Rs. 40 a day (or more). Mr. Athulathmudali said "I welcome this revolution. The manual and technical workers are going to get a better starting salary than the white collar workers." (10)

The Minister of Fisheries, Mr. Festus Perera, said that the maximum a government clerk could earn was between Rs. 500 and Rs. 600 a month. A fisherman could earn that amount in a single day. (11)

To revert to advertisements which are the best indicators of the revolution in wages the Government recently called for applicants for the post of Director of the Tea Research Institute from persons with the Ph.D. or other better qualifications on the salary of Rs. 2,200 to Rs. 2,500 with annual increments of Rs. 75. On the same day a private bank called for "management trainees" whose allowance during the period of training was to be "not less than Rs. 2,250 a month." (12)

A research organisation advertised for "an experienced sociologist" on a salary of Rs. 1,200 a month to Rs. 1,700 with annual increments of Rs. 50. In the same week a private firm called for applications for a confidential stenographer with the stipulation that those earning "less than Rs. 1,800 a month need not apply." (13)

In my previous work I observed that although Sri Lanka had not reached the stage where youths were actually discouraged from continuing with their education "the idea is beginning to seep through." There has been plenty of seepage in the last five years.

In one of the earliest surveys of graduate unemployment in 1968 it was found that there were about 6,300 arts and science graduates who were unemployed while another 1,900 were under-employed.

In 1977 according to a survey by the Ministry of Education about 50 per cent of the country's arts graduates were unemployed.'

Of late a situation has been reached where an arts degree is not a qualification but a disqualification. At a workshop held in May, 1980, by the Sri Lanka Federation of University Women, Mrs. Lakshmi Perera, Project Director of the Workshop said "A degree appears to be a disadvantage. A general avoidance of the arts graduates is evident." Dr. Wimala de Silva, Project Chairman of the Workshop said it was a paradox that the cream of the country's intelligentsia should be treated as "rejects." Dr. Stanley Kalpage, Secretary, Ministry of Higher Education, and Chairman of the University Grants Commission said the country was producing more arts graduates than the economy could absorb but it was finally Dr. Wickrema Weerasooria who went to the heart of the problem when he observed that arts graduates were handicapped because of their lack of knowledge of English. He said that for employees in new government ventures which had dealings with foreign investors a working knowledge of English was essential. (14)

It hardly needs to be stated that in the private sector English is a "must."

Sri Lanka is now paying the economic price for the folly of previous governments which while making the national languages the medium of instruction failed to make arrangements for students to also acquire a knowledge of English – a classic case of throwing the baby out with the bath-water.

While both the public and private sectors shun women arts graduates their less educated sisters who have acquired basic proficiency in shorthand and typing in English are in desperately short supply.

Here too the Ministry of Plan Implementation has conducted a wide-ranging survey and in his foreword to the published survey Dr. Weerasooria says the shortage has arisen as a result of the country having dispensed with English. "English" he says "will remain the language of commerce and trade in this country. It is also the media by which the private sector conducts its business both locally and internationally."

The survey conducted by Mrs. Rupa Monerawela states that incentives for the study of English were removed in the early sixties when English ceased to be a compulsory subject at the G.C.E. (O) Level; English teachers retired or emigrated, and those proficient in English found jobs in the Middle East, African countries, the U.K., Australia etc.

The survey estimates that the demand for English typists and stenographers in the next three years will be in the region of 14,000 and it makes alarming revelations about the existing shortage of English stenographers in government banks and other institutions. The Bank of Ceylon for example which needs 460 stenographers was short of 160, while the People's Bank with a cadre of 160 was short of 43. (15)

Another survey on manpower conducted by the Ministry of Plan Implementation revealed that every employer in the private sector was seeking applicants with a reasonably good knowledge of English except in the case of factory employees.

The question of gearing the educational structure to the needs of the economy has been stressed time and again by the spokesmen of whichever government has been in power and by commissions and committees but the mismatch and misutilisation of manpower resources is a continuing phenomenon.

In October 1979 a Committee on National Apprenticeship Training appointed by the Minister of Youth Affairs and Employment warned that unless frustrated youth were trained to be master craftsmen there would be a repetition of the 1971 insurgency.

The Committee said the protests of the urban youth as seen not merely in weird dress, attire or hairstyles, but also in hooliganism and delinquency which were "a symptom of the anxiety of young people and their disillusionment with a society where injustice is a visible and everyday happening. Let us attempt and prevent the next inevitable step in this phenomenon –open revolt of which the 1971 insurrection and the cry for Eelam are merely symptoms." (16)

The Committee stressed that Sri Lanka was moving towards becoming a highly technologically oriented and developed society but the training facilities for youths to shoulder the burdens of such a society were not available.

The message of the Committee's eloquently worded report was clear and it should have triggered action alarms but the official action that followed was the customary course of calling in a foreign consultant who of course came to the same conclusions. The consultant chosen was Mr. John J. Corson, of the International Executive Service Corps. Mr. Corson said that the output of the State's agencies for training youth – the National Apprenticeship Board, the Skills Development and Employment Division of the Ministry of Youth Affairs and the Employment Division of the Labour Ministry – fell far short of requirements while in the private sector "in the face of a need for thousands of workers there are at present less than 100 apprentices with private contractors". (17)

Following the Corson report the Government announced that it would give "top priority" to a training programme for young people but the only other action that followed was an announcement that the Department of Census and Statistics would undertake a survey of the labour force and manpower in Sri Lanka as the last such survey had been conducted as far back as 1969. In fact there had been a survey of the training facilities available and the level of utilisation by public and private institutions which was conducted by the National Apprenticeship Board in December, 1978. Questionnaires were sent to 480 institutions of which 330 replied. The overall conclusion from this survey was that even the limited existing training facilities were being utilised only to the extent of about 25 per cent. 234 of the 330 replies were from public sector institutions with the largest training facilities which were however being very poorly utilised. Training facilities for carpenters and masons who are in extremely short supply were not being availed of owing to the low social status of such jobs and also because of inadequate allowances paid during the training period of three to four years. The survey also revealed that demand for admission to training institutions was heavy only in the cases where subsequent employment was assured as in the case of the C.T.B. training workshop and the Telecommunication Training Institute.

Some astonishing facts that emerged from the Board's survey were that in 1977 only 53 masons and 93 carpenters were trained in the entire country. In 1978 there were only 25 masons and 64 carpenters. The result as Dr. H.N.S. Karunatilake observed in his comments on this survey is that "Labour is plentiful but skilled labour is hard to find. There is a serious mismatch between the aspirations and job preferences of the unemployed and the employment opportunities that are available." (18)

While officials of the Department of Census and Statistics are conscientiously engaged in their manpower survey there are numerous other reports of surveys conducted by both government and private sector organisations.

The failure of successive Governments to utilise and develop existing manpower resources within the parameters of job expectations and national needs has resulted in a remarkable state of affairs where both shortages and surpluses co-exist.

Newspaper headlines tell the story "Jobs galore, but no takers". "No Carpenters in Moratuwa." 'Shortage of Skilled Labour" "Mahaweli needs 15,000 more workers" and "Development hit by scarcity of skilled workers" are typical headlines chosen at random.

The Health Ministry last year experienced considerable difficulty in recruiting trainee-midwives even after it raised the upper age limit first from 22 to 27 and then to 30 years.

The co-existence of surpluses and shortages only underscores the need for gearing education to employment and to the economic needs of the country. Today Sri Lanka is in the unfortunate position of being short of skilled labour for its development projects.

In March 1980 there were reports that the Minister of Education was considering proposals to devalue "paper qualifications" by offering special incentives to those who opt for vocational training or technical education in preference to formal secondary education. (19) This may have been just another newspaper "story" but the need for a radical recasting of the educational structure was agreed on at a workshop held by the World University Service in Colombo in 1978. It was revealed at this conference that 51 per cent of Sri Lanka's youth in the age-group 15 to 24 had qualified at the (O) Level but were unemployed. This is hardly surprising in a system in which non-formal educational institutions do not exist and the (O) Level has become "a symbol of minimum social acceptance". It was suggested, and embodied in the official report of the conference that job training centres should replace formal school. It was felt that it was enough if a child was taught at least one job so that he could do it efficiently and earn a living from it. Other suggestions made at the workshop were that the school curriculum should not be crowded with unnecessary subjects which would not have a direct bearing with the job that the student would do later in life and that local bodies should be vested with the responsibility of planning and organising education in their particular areas since they were in the best position to assess resources and requirements. (20)

Such proposals may seem revolutionary today but it is obvious that a stage will soon be reached when there will have to be major changes in the scope and content of education. The emphasis today is on teaching, whereas the country's requirements are in training. How long can the country afford a situation where job seekers do not want the jobs available, or alternately that the education they receieved was not suited to the available jobs?

A country paper on Sri Lanka presented at the Commonwealth Education Conference stated that the "Quantitative expansion of education without a parallel thrust to align the system with the socio-economic needs of the country has resulted in a relatively high incidence of educated unemployed. The system's output in the seventies mainly prepared students for white-collar jobs and administrative careers far exceeding the demands of the economy for this particular skills mix". (21) The language used may be the jargon of officialese but the message is clear.

The Prime Minister, Mr. R. Premadasa in his address at the eighth Commonwealth Education Conference in Colombo in August 1980 observed that all those in schools today will live the greater part of their lives in the next century, and in a society in which technology will bring about drastic changes in life styles. If the educational system we have had in the past fails to meet the requirements of even the present it will obviously not suffice for the future. Sri Lanka's experience in the sixties and seventies has instead been that from the lowest level of appointments, transfers,and dismissals of teachers to the highest levels of university education there have been changes with each change of government and that students from whose cohorts the leaders of future governments will emerge have been the guinea-pigs of political caprice and bureaucratic experiments.

THE BRAIN AND BRAWN DRAINS

One of the paradoxes of our times is that the developing countries which are the recipients of aid from the developed countries are the principal exporters of skills to the developed countries.

Another interesting aspect of this flow of skills is the impact it has on the "donor countries."

In Pakistan it was found that about 50-70 per cent of the doctors who qualified annually emigrated each year in the seventies.

In India about 25 per cent of the engineers and 30 per cent of the doctors who graduated in 1966/67 were working abroad.

In the U.S.A. which is one of the main "beneficiaries" 51 per cent of the additions to the existing staff of doctors and surgeons were from developing countries. In the U.K. the corresponding figure was 40 per cent.

Sri Lanka's losses in the medical sphere have been far less severe than those of some other Asian countries.

According to a World Health Organisation study India is the largest "donor" of doctors. In the early seventies India had about 19,000 doctors serving abroad. On the basis that the cost of training of each doctor was 9,600 U.S. dollars the loss of "investment" was 144 million dollars.

The Philippines was the second largest "donor" with 9,500 doctors serving abroad and mostly in the U.S.A. The loss of investment by the Philippines was about 100 million U.S. dollars or twice the country's annual expenditure on health services. The Philippines is also the world's largest "donor" of nurses with 13,500 serving abroad, again mostly in the U.S.A. While the U.S.A. has been the main beneficiary of medical personnel from abroad the U.K., Canada, West Germany, Australia, and New Zealand are also popular "recipients." (22)

A Marga Institute survey in 1978 referred to the extremely limited information about the outflow of professional personnel. Some data was available from the Department of Immigration and Emigration which had to enforce the Passport (Regulation) and Exit Permit Act of 1971 which was adopted as a security measure after the insurgency but was also intended to substantially reduce, if not prevent, emigration for employment. The Act failed in the latter purpose because in the period 1971-1975 the rate of emigration of professionally qualified persons almost doubled. The exodus was mainly of doctors, engineers, accountants, and teachers, in that order and the largest proportion went to the United Kingdom. (23)

This survey noted that the outflow of engineering personnel had serious effects both in training plans and in the availibility of engineers for civil engineering projects. It said the exodus of doctors had adversely effected the health services and there had been detrimental effects in other fields such as the social sciences and teaching standards at the Universities.

Following UNCTAD methodology the study revealed that while the gross income loss to Sri Lanka from emigration to the U.K. in the period 1963-1964 was 54.7 million U.S. dollars the flow of development assistance from the U.K. in the same period was only slightly higher at 57 million U.S. dollars.

According to data compiled by the Ministry of Plan Implementation a total of 9,423 qualified and skilled persons left the country in 1979 with engineers, accountants and managers being the largest categories. The outflow in every category was higher than the annual output of the Universities, professional bodies, and technical institutes, and indicates that the incentives offered by Government are not proving effective.

Since it is Government policy to permit – if not encourage – migration it is very seldom, and in fact very rarely, that heads of departments or corporations comment on the difficulties caused by migration. In 1978 the Hardware Corporation however stated that it had experienced a loss of skilled moulders to Middle-East countries while the Fertilizer Manufacturing Corporation attributed delays in the erection of machinery to a lack of skilled labour.

Of much greater consequence was the observation of the Mahaweli Development Board that among the major constraints experienced in the construction of irrigation and social infrastructure facilities was a shortage of experienced staff in engineering, accounting, and allied fields at all levels and of course skilled and semi-skilled personnel such as drivers and mechanics. (24)

One of the most insidious effects of the brain-drain is that a large percentage of posts in government departments remain unfilled for years.

In 1979 the joint Secretary of the Association of Government Scientific Officers, Mr. J.A. Mendis said that in the Ministry of Fisheries out of 41 posts 24 had remained unfilled, and there were large numbers of posts unfilled in other government departments such as the Analyst's Department, and the Irrigation Department. At the Universities of Peradeniya and Colombo hardly any of those who obtained honours in chemistry joined government service. The majority went abroad while some joined private firms. (25)

Nowhere is the brain drain so tragically apparent as in our universities. The roll of distinguished Sri Lankan academics serving in universities abroad, as well as U.N. agencies and other international organisations is longer and more impressive than those who have chosen to remain in Sri Lanka.

A single advertisement by the University of Sokoto in Nigeria attracted 180 applications from universities in Sri Lanka. In slightly different terms this means that in one discipline alone there are 180 dons in Sri Lanka who would pack their bags tomorrow if they could.

The present Government's concern over the brain-drain was reflected in its first policy statement in the National State Assembly in which it said it would take measures to relieve the frustration caused among the intelligentsia and other highly qualified and trained persons resulting in large numbers of such persons who were urgently needed for development leaving the country.

The Sri Lanka Association for the Advancement of Science has consistently agitated for a National Science and Technology Policy which was outlined by President J.R. Jayewardene at its 34th annual sessions at which the President of the S.L.A.A.S. indicated some of the major reasons for the continuing exodus of scientists.

Prof. Weerakoon said scientists were frustrated by the conditions under which they work. He said it was not so much a question of "the absence of very costly equipment like huge computers or scanning electronic microscopes that frustrates local scientists but rather the incredible difficulty of getting simple, cheap, everyday equipment because of outmoded bureaucratic procedures and an uncooperative bureaucracy." In stressing the need for more post-graduate training facilities Prof. Weerakoon said that in the last ten years or so Sri Lanka had been dependent in this respect "on the charity of rich developed nations."

The brain-drain of late sixties and early seventies developed into a brawn-drain in the mid seventies and initially, as usual, there were no reliable statistics. Even M.P's and Ministers were under the impression that the "exodus" was much greater than it was in reality. It was left to the Ministry of Plan Implementation to depute a special officer, Mr. L.K. Ruhunage, Development Officer of the Manpower Division to conduct a special survey of skilled, semi-skilled and unskilled migrants to Middle East countries.

This survey showed that between 1976 and 1978 a total of 14,241 persons had migrated to the Middle East whereas earlier official estimates had placed the figure at over twice this number.

The biggest single category of migrants was carpenters and masons who constituted 46.5 per cent of the total.

On the professional level the biggest group was accountants who accounted for 113 out of a total of 266. The others were 84 engineers, 40 managers, 8 doctors, and 21 unclassified.

At the middle level out of a total of 1027 the biggest categories were foremen or supervisors 229, technicians 199, clerks 162, and store-keepers 125.

Among the total of 5,095 unskilled persons the three biggest groups were labourers 1914, housemaids 1606, and waiters 1139.

The most popular destination was Saudi Arabia which had 5,273 or 37 per cent of the total while Oman was second with 2567 or 18 per cent of the total. The United Arab Emirates was third with 2254 or 15.8 per cent of the total. Iraq had 1532, Sri Lankans and the other Middle-East countries each had less than 1,000 Sri Lankans.

98 per cent of the women who migrated to the Middle East were in domestic service which probably accounts for the "Arabian Nights" flavour of stories in the newspapers.

Salary-wise the survey disclosed that these Sri Lankans were on average earning in one month what they would earn in a year at home.

Mr. Ruhunage concluded his study with the remark that "The migration of manpower for some fields may have to be restricted or the pace of technical education accelerated to compensate for the loss of skilled manpower." (26)

The only compensatory factor so far has been the inflow of money. In 1977 remittances from Sri Lankans amounted to Rs. 200 million and in 1978 to Rs. 300 million.

In mid 1980 the inflow was close on four million U.S. dollars each month while the "input" by way of electronic appliances, vehicles, and consumer goods brought in by Sri Lankans returning permanently or on leave was estimated at about Rs. 100 million annually.

Despite the horror stories of ill treatment of many migrants it was only in July 1980 that the Foreign Employment Agency Bill was enacted. The exploitation of migrants begins in Sri Lanka itself through the activities of some unscrupulous private agencies. At the time this "long overdue" Bill was presented there were 500 registered agencies and another 300 whose applications for registration were pending. Not even the Iran-Iraq war which resulted in hundreds of Sri Lankans having to return to the Island has dampened the enthusiasm of Sri Lankan youth in search of lucrative Middle-East employment.

REFERENCES

1. Employment Policies in Developing Countries. J. Mouly and E. Costa (I.L.O. London 1979).
2. People. Vol. 6. No. 3. 1979.
3. Employment and Unemployment in Ceylon. P.J. Richards. (O.E.C.D. Press Paris, 1971)
4. Social Accounting for Development Planning with special reference to Sri Lanka. Graham Pyatt, Alan R. Roe and associates. An I.L.O. study (Cambridge University Press. 1977)
5. Labour Problems in the Economic and Social Development of Ceylon. (International Institute of Labour Studies. Geneva 1971)
6. Central Bank Review of the Economy. 1978.
7. Sun. September 30, 1980.
8. Performance. 1979. Ministry of Plan Implementation.
9. Ceylon Daily News. October 8, 1980.
10. Ibid. March 29, 1980.
11. Ceylon Daily Mirror. March 20, 1980.
12. Sunday Observer. July 13, 1980.
13. Ceylon Daily News. July 21, 1980.
14. Sunday Observer. May 18, 1980.
15. Secretaries, English Stenographers, and English Typists. Manpower and Employment Opportunities Survey. (Ministry of Plan Implementation 1980)
16. Ceylon Daily Mirror. November 28, 1979.
17. Ceylon Daily News. May 12, 1980.
18. Sri Lanka Journal of Social Sciences. Vol. 1. No. 2. December 1978.
19. Sun. March 28, 1980.

REFERENCES (Contd.)

20. Rethinking Development. World University Service. Colombo Workshop Report. (Geneva July 1978).

21. Sun. September 24, 1980.

The Brain and Brawn-drain

22. Report of International Development Research Centre published in the Ceylon Daily Mirror. September 30, 1980.

23. Marga. Vol. 5. No. 2 1978.

24. Performance. January - September 1978 and 1979.

25. Ceylon Daily Mirror. July 15, 1979.

26. Migration of Sri Lankans to the Middle East. L.K. Ruhunage. (Ministry of Plan Implementation June 1979).

Chapter 10

A STUDY IN CONTRASTS — the private and public sectors

Friedrich August von Hayek, the Austrian winner of the Nobel prize for economics is a prophet who has lived to see his prophecies fulfilled and his views vindicated. A champion of the free market economy and the freedom of the individual he warned against the "Keynsian Revolution" when governments all over the world tried to maintain full employment through public spending and Western nations changed free enterprise structures into mixed economies.

In recent years growing unemployment, spiralling inflation, and recessionary trends have forced governments into a re-appraisal of Keynsian formulas and prescriptions. Among Sri Lanka's neighbours such as India, and in countries so different and geographically apart as Britain and China, governments are resorting to values and systems that were almost thrown overboard in the Keynsian era. "The views of Hayek and those who think like him are gaining credence" noted a writer in a recent issue of a business journal. (1)

In Britain where Mrs. Thatcher has called in Prof. Milton Friedman of the so-called Libertarian School of Economics whose own views were infl-uenced by Hayek the Government has opened to the private sector some parts of the economy which had remained government monopolies for three hundred years.

In India controls and curbs are being relaxed. Alarmed by a 1.4 drop in production in 1979 Mrs. Gandhi's Government increased the number of permits issued to new business by 40 per cent in 1980. Selected industries have been allowed to expand without the special permission that was necessary earlier. Restrictions on foreign partnerships have been eased and price controls are being relaxed in some industries. (2)

In China capitalists earlier described as "running dogs" and "hyenas" now find their skills and expertise in demand.

In Sri Lanka the Minister of Finance and Planning, indulged in an astonishing "mea culpa" at the end of his second Budget Speech when he said "before I conclude, permit me to quote from Professor F. A. Hayek, Nobel Prize Winner, and one of the most controversial economists of this century. In the days of our youth, we agreed with Keynes and disagreed with Hayek. Some of the warnings expressed by Hayek thirty years ago have now been proved correct. He stated in his famous book *The Road to Serfdom*:–

"The first need is to free ourselves of the worst form of contemporary obscurantism which tries to persuade us that what we have done in the recent past was all either wise or inevitable. We shall not grow wiser before we learn that much that we have done was very foolish. If we are to build a better world, we must have the courage to make a new start."

Having quoted Hayek Mr. de Mel ended his Budget Speech with the words "In 1977 we had the courage to make a new start and we will succeed." Nowhere perhaps has the present Government's pragmatism been more evident than in its willingness to admit the inability of the public sector to perform services essential to the life of the community with the efficiency and economy with which such services can be performed by the private sector.

When Mr. Dudley Senanayake was Prime Minister from 1965 to 1970 there was a general expectation that at least the C.T.B. which had proved notoriously inefficient and a serious drain on government finances would be even partially denationalised, but from the bus services to the private schools Mr. Senanayake made no changes. Mrs. Bandaranaike's Government, as I have shown in my earlier book, allotted a key role to the private sector in its Five Year Plan which envisaged a gross investment of Rs. 14,820 million of which Rs. 7,780 million was to come from the private sector. The private sector responded with a blue–print (which incidentally had a blue cover) entitled "Private–Sector Participation in the Five Year Plan" but the document was pigeon–holed if not less ceremonially treated.

At the annual meeting of the Ceylon Chamber of Commerce on April 28, 1975 the Chairman, Mr. P.C.S. Fernando appealed to the Government to at least suspend the "Business-bashing" that had been going on and in the same year in my capacity as President of the Federation of the Chambers of Commerce and Industry I drew attention to a dangerous proposal by a Committee to enlarge the definition of "State assets" to cover all forms of business activity and to make even private firms liable to public scrutiny.

Mrs. Bandaranaike's Government paid lip–service to the concept of a "mixed economy" but as Mr. V. L. Wirasinha, Chairman of the Ceylon Chamber of Commerce said at the Chamber's annual meeting in 1976 the problem was "not with the ideology but with the composition of the mixture while heavy taxation and compulsory savings negatived the prospects of capital formation."

With the removal of the Trotskyites (Sama Samajists) from Mrs. Bandaranaike's Government and with Mr. Felix Dias Bandaranaike assuming office again as Minister of Finance there were hopes of a better deal for the private sector. Some of the measures in the Budget announced by Mr. Bandaranaike in his Budget in November 1975 were indeed designed to encourage and revive capital formation in the private sector. These included the abolition of compulsory savings and the ceiling on disposable income but a new expenditure tax was introduced and the disincentive of the Business Undertakings (Acquisition) Act was not removed. However in response to initiatives by the Minister, the Chamber of Commerce carried out a survey of investment plans which envisaged an investment of Rs. 210 million and additional employment for over 7,000 persons. These plans were submitted to the Ministry of Finance for processing but before any further action could be taken Mrs. Bandaranaike's Government was routed at the July 1977 elections.

The first annual meeting of the Ceylon Chamber of Commerce after the present Government came into power was held on July 28 less than a week after the Government had assumed office and it was only at the annual meeting held on July 28, 1978, after the Government had been in power for one year that the Chairman of the Chamber, Mr. C.P. de Silva was able to assess and evaluate the new situation that had arisen. The Government, he said, had made a decision to resuscitate the private sector. "An excellent way to start resuscitating a patient is to stop strangling him. For years the private sector had been strangled by a multitude of controls administered occasionally with delight, more often with bored indifference, by a rapidly expanding bureaucracy." The Budget of 1977– a landmark in the history of the country – saw an end to most of that. It ushered in a rapid dismantling of the more pernicious controls. It saw a relaxation of import and exchange controls and a welcome liberalisation of the economy. Of course there could be no results overnight. Mr. de Silva showed that while the private sector was responding to the Government's call for development and employment creation there were difficulties in finance as excessive taxation had made inroads into private sector liquidity. All major projects also involved construction and often the ordering and receipt of equipment and machinery from abroad which necessarily involved some time.

Consultation and co-operation between the Government and the private sector have been a favourable and welcome trend since the present Government assumed office. A committee of three from the private sector was appointed by the Minister of Finance to advise on the streamlining of import and export, customs, and exchange control procedures. Representatives of the Taxation Committee of the Chamber were also invited for discussions with the Commissioner-General of Inland Revenue and Tax Advisory Committee before the formulation of the second Budget.

The second Budget reduced rates of company taxation and although the marginal rate of personal taxation was raised from 50 per cent to 70 per cent there were simultaneous reliefs for approved investments. Incentives were provided for exports; construction of offices and housing; the formation of companies, and small industries outside municipal limits. In its own interests the Government took action to reduce the brain drain from the public sector by exempting public and corporation employees from income tax.

One of the suggestions made by Mr. de Silva which I hope the Government will soon act on is to follow the U.K. models of issuing Green Papers on Ministerial proposals when they are in the formative stage. Such a system will enable not only the private sector but all interested parties to express their views which can be considered in the enactment of laws or in the adoption of action by administrative procedures.

The private sector, as Mr. C. P. de Silva, Chairman of the Ceylon Chamber of Commerce observed at the annual meeting in July 1979 has "certain built-in incentives, a distinct edge when it comes to speed of decision and action on the one hand, and optimal use of resources on the other. As a corollary to this, all employment given in the private sector tends to be productive."

The importance of the role assigned by the Government to the private sector in its development programmes is seen in the fact that investment projections for 1979–1984 provide for investment in the region of Rs. 30,000 million by the private sector as against Rs. 46,000 million by the public sector. The higher projection for the public sector is because of the Accelerated Mahaweli Scheme and Urban development and housing.

The 1980 Budget proposals also indicated that representations by the Chamber had been favourably considered in the formulation of taxation proposals. These included the following :–

(a) The introduction of a concessionary rate of 40 per cent for all public limited companies whose shares are quoted and who make available for purchase by the general public a minimum percentage of shares.

(b) The removal of the 33 1/3 per cent withholding tax on dividends declared bv the broad based public quoted companies although such dividends are liable to tax in the case of individual shareholders.

(c) The withholding tax on companies other than broad based companies was reduced from 33 1/3 per cent to 20 per cent.

(d) The scheme of lump sum capital allowances for plant, machinery fixtures and buildings due to end on March 31, 1980 was extended for another two years.

(e) The marginal rate of personal taxation was reduced from 70 per cent to 55 per cent.

There is now a realisation that the public and private sectors are not in competition with each other and private sector co-operation is being sought to supplement services provided by the State ranging from the postal service which has been in existence from the earliest days of British rule to transport where it is now evident that Mr. S.W.R.D. Bandaranaike made a disastrous move in nationalising the bus services.

Initially private operators were allowed to operate on particular routes and about 50 coaches were introduced mainly on the Colombo–Kandy route. Initially again private operators charged higher fares for the semi-luxury services they provided with no standing passengers being allowed. The popularity of the coach services combined with the inadequacy and inefficiency of the S.L.C.T.B. services resulted in an increase in the number of private coaches to over 1,000 at the end of 1980. (see chapter 11) How the private sector converts the losses of a State service into profits needs elaboration only for foreign readers. The S.L.C.T.B. with 63,000 employees or about 11 employees per bus is an employment agency where employees have perfected the art of performing a minimum of work with a maximum of legitimate (or illegitimate) income to themselves.

The private sector has assisted both the C.T.B. and the Railway in the building of buses, bodies, and railway coaches with considerable savings in both local costs and foreign exchange.

The combination of private sector management with government ownership has worked successfully and is to be extended to other industries such as fisheries. The Ministry of Lands and Land Development has even decided to permit private sector investment in the development of forests – a measure that would mark a neat reversal of the historical process by which the private sector converted forests into tea and rubber plantations.

Although it was expected that the U.N.P. Government would repeal the Business Acquisiton Act of the previous administration the only concession to the private sector has been that firms operating in the Free Trade Zone are exempt from it. Soon after it was elected the Government used this Act to take-over The Times of Ceylon Ltd. where mismanagement had endangered the future of the establishment and employment prospects of the workforce. Between July 1977 and December 1980 the Government acquired a number of other establishments. The Business Acquisition Act remains a blot on the Statute Book even though many of the harsh, unjust, and undemocratic measures of the previous Government have been repealed by law.

Private sector confidence in the Government received a rude jolt when the Government acquired the Mackinnon building in the Fort in 1980 under the provisions of the Land Acquisition Act of 1964. The Ceylon Chamber of Commerce in representations to the Government drew attention to the fact that while the Business Acquisition Act was still in force the Government also enjoyed the powers of acquisition under the Land Acquisition Act and that these laws were by no means conducive to confidence in the investment climate of the country. At the annual meeting of the Chamber held shortly afterwards, Mr. Anandatissa de Alwis, Minister of State who was chief guest poured oil on troubled waters. He read a note from his colleague, Mr. Gamini Dissanayake, Minister of Lands and Land Development, setting out the difference in procedures and practices between the last Government and the present.

The Chamber's representations had the effect of the Government reaffirming guidelines on the acquisition of property and the episode ended with a cooling of tempers on both sides. (3)

A great deal still remains to be done in the sphere of industrial relations

The violation of the provisions of Collective Agreements by unions and employers being compelled, or requested to make wage increases each time the Government makes ad hoc awards despite the fact that wage levels in the private sector are much higher than those in the public sector, have been the main problems of the Employers' Federation which celebrated its golden jubilee in 1978.

At the annual meeting of the Federation in September, 1979, the Chairman, Mr. C.P. de Silva, said it was ironical that two of the longest strikes in member firms had been in establishments where conditions of service were even better than in other firms that subscribe to Collective Agreements. "It is a matter for regret" he said "that certain unions, themselves parties to Collective Agreements freely negotiated, are often in breach of agreement and in total disregard of obligations they have assumed under these Agreements. Thereby they bring into question our belief in the system of collective bargaining to ensure industrial peace. One of the most prolonged strikes was in pursuance of a demand for a bonus of eight months' salary in an establishment which has been in the habit of paying three months' gross salary in terms of a Collective Agreement that subsisted between the Company and the Union."

Mr. de Silva said this type of conduct raised the question of whether penal sanctions should not be applied against unions that flagrantly flout the provisions of agreements. Action is often taken against employers who find themselves unable to honour the provisions of such agreements but unions which defy agreements only receive public, and sometimes even Government sympathy. The reason for this state of affairs, as Mr. de Silva said, is that it is easier for a Government to take action against an individual miscreant employer than an union.

The other major problem of employers in recent years has been that the private sector has been directed, or expected to increase wages each time the Government makes an ad hoc award to minimise hardships among low paid public servants despite the fact that the Collective Agreements signed by members of the Federation contain built-in provision for automatic adjustments of emoluments based on increases in the cost of living index. "What is the purpose of having these agreements" asked Mr. de Silva "if, in addition to these built-in safeguards for our labour, we are also called upon to pay ad hoc awards made by Government? Would it not be better in these circumstances to have Government fix all wages than, as at present, have Collective Agreements if wage increases are to be imposed on us in addition? In this way we tend to have the worst of both worlds."

While the private sector has responded to the responsibilities entrusted to it by the Government there are of course difficulties being encountered which act as restraints and limitations. Two of the most serious problems are the high lending rates of banks and other credit institutions and the shortage of liquid cash. These are elaborated on by Mr. L. Stanley Jayawardena, Chairman of the Ceylon Chamber of Commerce in a message published in *Performance* . Mr. Jayawardena has shown that high interest rates make investment expensive, push up prices, and make Sri Lanka's exports less competitive as cheaper money is available in the main international markets while several countries offer special low interest rates to their exporters.

The membership of the Ceylon Chamber of Commerce is an indicator of the health of the business sector. Between 1977 and March 1980 the membership of the Chamber rose from 303 to 515.

THE PUBLIC SECTOR

Over the years corporations have been a growing leviathan of State power but displays of efficiency, enterprise, or integrity have been sadly lacking.

"Public enterprises have often worked badly. The path is fairly liberally strewn with wreckage. Public failures are always more notorious than private failures, but to excuse is not to answer."

This was one of the world's most famous economists, John Kenneth Gabraith , speaking, and he was commenting on corporations in April 1959. At that stage there were 20 corporations.

Corporations proliferated under the last Government which used them as tools of power and patronage. The last Government appointed a Committee of Inquiry into corporations of which the late Mr. George Rajapakse was Chairman but ignored the findings of the Committee. No new ventures were started by Mrs. Bandaranaike's Government except through corporations.

The Rajapakse Committee utilising data available early in 1971 estimated that public investment in the corporations amounted to Rs. 4,125 million. It noted that the profits over a period of 20 years had been Rs. 10,900,000 or just under 0.4 per cent. At that stage there were 70 corporations.

The growth of the corporation sector between 1970 and 1977 is seen in the fact that at the end of 1977 public investment in corporations was Rs. 11,317 million but their total contribution to Treasury funds was only Rs. 333 million. Employment-wise they had a total workforce of 396,000 persons. (4)

The new Constitution which came into operation on September 7, 1978 provided for the establishment of a Committee on Public Enterprises (COPE) which in addition to the existing Public Accounts Committee provides for an all–party review of the activities of corporations and also for a Select Committee, again of all parties, which reviews appointments to important posts in corporations. In addition to these committees there are also consultative committees in each Ministry which are empowered to conduct a continuing monitoring of the activities of the various Ministries. As will be seen later none of these organisations has had any marked impact on the functioning of the corporations.

The Finance Minister's assessment of the performance of the corporation sector has shown variations with each Budget Speech.

In his first Budget on November 15, 1977 he said the performance of public sector enterprises had been "extremely dissappointing" and that "the poor consumer suffered all along the line and he suffered in silence." Mr. de Mel said there had been a decline in standards of management discipline and an erosion of enterprise autonomy while corporations had also failed to provide adequate supplies of goods and services essential to the community. These were obviously in reference to the period of the previous Government.

In his second Budget referring to the first 12 months after the present Government came into power Mr. de Mel said the results of the working of corporations had been "satisfactory by any standard." The Minister referred to increases in production of rutile, cement, graphite, petroleum refined products, tyres, leather, ceramic tiles, and mammoties and he also noted that corporations had shown an increase of 26 per cent in employment in the first 12 months after the Government came into power. While the Weaving Supplies Corporation was in the process of liquidation the Government had utilised the expertise of the private-sector in the management of textile mills.

In his third Budget Speech Mr. de Mel admitted that the major expansionary influence on the money supply in the first half of 1979 had been due to a large increase of Rs. 1,124 million or 48 per cent in credit granted to Government corporations such as Petroleum, Salu Sala, C.W.E., and National Textiles. Mr. de Mel also admitted that this state of affairs was due to a lack of financial discipline on the part of corporations and said that strict borrowing limits would be set by the Treasury.

In his fourth and most recent Budget Speech Mr. de Mel noted both increases and decreases in the production of various corporations but refrained from any general comment.

Mr. de Mel has been more outspoken about the working of corporations in statements outside Parliament.

"Monopoly power, lack of incentives and managerial experience and heavy handed interference in production, pricing, and employment policies" were attributed as the main reasons for the failure of most corporations under Mrs. Bandaranaike's Government by the Monetary Board of the Central Bank which also noted that the corporations were burdened with social obligations such as price restraints to keep the cost of living low.

In 1978 the Central Bank noted that there had been a considerable improvement in the performance of public sector industrial corporations due largely to more efficient management, better labour relations, and commercial guidelines for improving production and financial viability. Overall production improved by ten per cent against a decline of 3 per cent in 1979. (5)

Under the present Government corporations have been allowed greater freedom in pricing policies subject to approval of the National Prices Commission and in sensitive areas to Cabinet approval too. Although it is declared policy to eliminate subsidies the National Milk Board was subsidised by Rs. 83 million and the Petroleum Corporation by Rs 528 million in 1978. 93 per cent of the transfers by the Treasury to State enterprises were to these two corporations alone.

While the output of State industrial corporations showed an encouraging increase of ten per cent in 1978 the increase in 1979 was only 3 per cent. In the first eight months of 1980 however production had increased by 13 per cent compared to the output of the corresponding period in 1979. This was largely due to petroleum production which accounts for a major share of production in the State sector increasing by 29 per cent.

An official publication issued towards the end of the last Government's term of office stated that the foreign exchange gains from local manufacture had been only "marginal" owing to heavy dependance on imported materials and equipment. The publication listed endeavours made to make greater use of local raw materials notably by the Paper, Cement, and Ceramics Corporations. In recent years these efforts have been allowed to slide with the free availability of imports. (6) The Central Bank noted that between 1978 and 1979 the import content of raw materials actually increased from 79 per cent to 82 per cent. It is the almost uncontrolled use of raw materials that leads to "imported inflation" which politicians blame for rising living costs.

While it is impossible to summarise the achievements and failures of all corporations within the confines of a single chapter some successes and failures call for inclusion in a general survey of the economy.

The Tyre Corporation entered the world tyre market in August 1980 when it signed contracts for the export of car and tractor tyres to Kuwait, Pakistan, Bangladesh and Burma. Kuwait was willing to purchase 75,000 car tyres but the Corporation was only able to provide 10,000. Tyres exported to Pakistan last year on an experimental basis have proved popular and in Burma "Kelaniya" tyres will compete with Japanese and South Korean makes. If the Corporation can achieve its target of exporting 30 per cent of its production in 1981 it will bring about a major shift from the period when Sri Lanka exported sheet and crepe rubber and imported all its requirements of manufactured rubber goods. (7) Another significant breakthrough will be the projected tubeless-tyre factory to be established at a cost of Rs. 22 million out of the Corporation's own resources. Technological assistance from B.F. Goodrich has enabled the Corporation to compete successfully with internationally reputed tyre manufacturers.

Another successful corporation in the country has been the Ceramics Corporation which set up Lanka Porcelain Ltd. and Lanka Wall Tiles Ltd. with Japanese collaboration. Being virtually freed of government regulations and Treasury control the two organisations were successful in containing the gestation periods of their products to a little over one year with capital investments of only Rs. 30 million and Rs. 70 million respectively.

The Sri Lankan tendency to disparage anything made locally was exemplified by a businessman closely associated with the present Government who described the toilet-ware made by the Ceramics

Corporation as "still very primitive" in a talk at the Centre for Society and Religion.

The Petroleum Corporation is the biggest single import agency in the country but is also the second largest earner of foreign exchange through sales of naptha and fuel oil, and fuel to aircraft and ships. In the first six months of 1980 exports amounted to Rs. 1,400 million and were expected to rise to Rs. 3,000 million by the end of 1980.

One of the most notorious corporations has been the Milk Board.

The Milk Board is a sad example of a corporation which has failed to deliver the goods despite a barrage of criticism and exposures in the newspapers and periodicals. The corporation's extremely poor performance has adversely effected nutritional standards. At one end producers are cheated of a fair deal and at the other consumers have had to pay for the cost of corruption and inefficiency not only in the collection and distribution of milk but in enormous losses involved in stocks of imported milk foods and butter being condemned as unfit after lying in the corporation's stores for as long as seven years. Millions of rupees have gone literally down the drain with no accountability and no action against those responsible. (8)

It is extremely rare for action to be taken against top executives of corporations but in October 1980, Mr. Anura Weeraratne, Secretary, Ministry of Fisheries sent 30 executives on compulsory leave for alleged inefficiency, mismanagement, wastage, and misconduct (9) It was Professor Galbraith himself who advised the Government of Sri Lanka that standards in corporations should be made more demanding and that "If a man fails he must go." South Korea is not a model for emulation in every respect but in that country 4,992 public officials were sacked for inefficiency and corruption in a single week in July, 1980. In Sri Lanka on the other hand not a single public servant has been punished for inefficiency as the Secretary to the Cabinet Mr. G.V.P. Samarasinghe, observed at a workshop organised by the Ministry of Plan Implementation. (10).

The broad-basing of corporations to bring in worker and public participation has been one of Government's declared intentions which had not been implemented up to the end of 1980.

In September 1980 the Minister of Industries and Scientific Affairs, Mr. Cyril Mathew said the Cement Corporation which was one of the biggest and most efficiently run of the State corporations had been chosen as the first in which the scheme would be implemented. The existing factory which consists of Stage one and Stage two of the project is to continue to function under the Cement Corporation but Stage three of the Kankesan cement works is to be formed into a limited liability company by the sale of shares to employees and the public with a total investment of Rs. 600 million. Employees are to be allowed to utilise their Provident Fund money to purchase shares and the E.P.F. law is to be amended for the purpose. Whether employees will want to risk their main source of savings and the response of investors remain to be seen. (11) Workers are to be given the option of surrendering their shares to the company or of selling them to fellow-workers at the prevailing market value which is a risky proposition but the Chairman of the Corporation, Mr. Asoka Somaratne was quoted as saying "The real workers era will dawn with the formation of the Kankesan public limited liability company."

Having monitored the performance of corporations for over three years the Government decided towards the end of last year to go ahead with a draft law to convert corporations into public companies in which the Government will hold 20 per cent of the shares. The President informed the Cabinet that there had been numerous instances of wasteful expenditure, misuse of transport, import of equipment that had not been used, overstaffing, lack of financial control and planning, and excessive dependence on Government for funds – the mixture as before. The Government has hopes of attracting persons from the private sector as chief executives of the revamped corporations but the experience of the past is that the flow of talent is from the public to the private sector and even the abolition of income tax for government and corporation employees had little or no impact on the flow of expertise from the public to the private sector. As far back as 1957 Prof. J.R Hicks said that if the corporations were to be successful they should be manned by persons "who are independent of government and who yet possess an unimpeachable public reputation, so that they can command on their own reputation, the full confidence of the public." At that stage Prof. Hicks felt that such persons were "not plentiful" in Sri Lanka. The brain–drain has made such persons even more difficult to obtain today.

REFERENCES

1. International Management. August 1980.
2. The Economist. October 11, 1980.
3. The Tribune. August 16, 1980 and Ceylon Daily News August 6, 1980.
4. Sepcial features attendant to the management of Corporations. R.N. Hapugalle. Colombo. November 1978 (mimeographed)
5. Central Bank. Annual Review 1978.
6. Six years of Industrial Progress 1970 – 1976 (Ministry of Industries and Scientific Affairs)
7. Ceylon Daily News. August 22, 1980.
8. Tribune. November 8, 1980.

REFERENCES (Contd.)

9. Ceylon Daily Mirror. October 14, 1980.

10. Ceylon Daily News. July 17, 1980.

11. Ibid. August 25, 1980.

Chapter 11

PUBLIC TRANSPORT — The juggernauts & the gliders

The Ceylon Transport Board which has been known as the Sri Lanka Central Transport Board since mid-1978 when nine Regional Transport Boards came into existence has proved Sri Lanka's mostly costly and disastrous experiment in nationalisation.

When Mr. Dudley Senanayake's Government was elected in 1965 it was expected that the C.T.B. which had proved a failure both in its service to the public and as a financial burden on successive Governments would be denationalised at least in stages but Mr. Senanayake lacked the political will to take such a decision.

When the present Government assumed office the services had deteriorated to such an extent that one third of the C.T.B.'s fleet of 5,400 buses were over 15 years old and most of them were unroadworthy. A replacement of buses was both expensive and involved time and so the Government called in the private sector which within a year increased its fleet strength of private vans, mini-buses and omnibuses from 30 to over 1,000. Initially the private sector "coaches" as they are called charged higher rates than the C.T.B. for comparative luxury travel but in November 1980 after the C.T.B. had increased its fares for the third time in three years (and twice in 1980) the fares charged by private operators over short distances were lower than those levied by thr C.T.B.

Mr. M.H. Mohamed, the Minister of Transport, who also became the Minister of Transport Boards in 1978, told Parliament in the 1980 Budget debate that he was prepared to hand over not only routes but even depots to the private sector.

The increases in the prices of fuel and the cost of new buses and spares are the reasons attributed by the Minister and the S.L.C.T.B. for higher fares but these facts are so well known that they hardly need stressing. The facts which the Minister and his officials have chosen not to comment on are more revealing.

The C.T.B. is the best example of what Janice Higgins called "welfare states within the welfare state" or more simply "jobs for the boys."

Between 1977 and 1979 the number of C.T.B. employees rose from 52,793 to 59,406. This was an increase of 13 per cent at a time when the C.T.B. as everyone knew was already heavily-overstaffed. The average worked out to 12 employees for every bus, against 11 per bus the previous year.

In 1979 there was a 3 per cent increase in staff from 59,406 to 62,837 and the Minister said this was in keeping with the Government's policy of "generating employment."

In 1978 the average operated fleet improved only marginally by 137 buses which still left a shortage of 838 buses if the C.T.B. was to maintain its scheduled services. The operated kilometerage was 92 million kilometers short of scheduled services and of these services 9 million kilometers were cancelled because of "chronic absenteeism". The C.T.B.'s losses in 1978 amounted to Rs. 55 million. If this was bad, worse was to follow, for in 1979 the loss was Rs. 316 million. In 1979 overcrowding reached a new record of 75 per cent but revenue increased only marginally from Rs. 939 million to Rs. 1,051 million between 1978 and 1979. In the simplest terms the C.T.B. lost 66 cents on every kilometer operated against 12 cents in 1978. (1)

In the interest of passengers and to reduce losses to government there will obviously have to be a progressive increase in the services operated by the private sector.

The World Bank in its report on Sri Lanka for 1979 noted that investment in transport was mainly in increasing road capacity for the "growing swarms of private automobiles" when priority should be given to increasing bus fleets and routes and has matched its advice with assistance by giving Sri Lanka a loan of Rs. 53 million to improve its bus services. A scheme formulated by World Bank officials provides for a reduction in the number of buses and personnel attached to each depot in order to minimise maintenance delays and labour handling problems. Waste, theft, and corruption are known to have existed in the C.T.B. almost from its inception and as a weekly journal of comment urged the clean up should be "from top downwards." (2)

THE RAILWAY

A private-sector firm with foreign collaboration has undertaken the re-building of 200 railway coaches but there are no prospects of the railway being handed over (or accepted) by the private-sector. There have been periodic announcements that the Ceylon Government Railway which functions as a government department will be converted into a statutory board but even this may not be a solution to problems that have proved intractable.

The railway's record has been as dismal as that of the C.T.B. in the inefficiency and unreliability of its services and as a steady drain on government finances.

The network of railway tracks remains basically the same as the British had built it up to 1928. Since then according to a People's Bank survey there have been only links to the cement factory and clay grounds at Puttalam; and retractions (Ragala, Yatiyantota, Opanaike, and Puttalam). There has been only one case of track-doubling from Rambukkana to Polgahawela. The track structure has been practically unchanged for over 50 years and the length of the track is low by world standards in relation to population. (3)

Work has commenced on the first phase of the 300 mile long Mahaweli railway which was originally expected to cost Rs. 1,275 million but the cost keeps soaring with delays. The first phase which will connect Welikanda and Mahiyangana will cover just 42 miles.

Until the Government decided in 1977 to go ahead with an electrification of the suburban track from Kalutara to Veyangoda the C.G.R. had opposed electrification which was first proposed by the pioneer of hydro-electric power, Mr. D.J. Wimalasurendra in 1918 in a paper on "The economics of power utilisation in Ceylon." He proposed electrification from Polgahawela to Bandarawela and from Kandy to Matale but while railways all over the world pleaded for electrification the C.G.R. opposed it.

In 1980 the Institution of Engineers drew the attention of the Government to the need to proceed with the electrification of the railways to reduce dependance on oil and to the urgency of the task in view of escalating costs but both the energy crisis and the shortage of finance make progress in the near future highly unlikely.

While a delegation of officials from the Indian railways has recommended the electrification of the entire railway network the railway's only plans at present are for electrification from Veyangoda to Polgahawela, Colombo to Homagama, and the new rail link to Jayewardenepura. (4)

Reflecting increased employment and economic activity the railway carried an all time record of 80 million passengers in 1978 but the only effect on the railway's finances was a slight reduction in the deficit from Rs. 166 million in 1977 to Rs. 157 million in 1978. The Central Bank noted that the railway being a government department did not maintain accounts on the commercial basis of a private firm in which case its losses would have been much higher. The railway like the C.T.B. is heavily overstaffed and its salary bill accounts for 45 per cent of expenditure.

In 1979 the number of passengers carried reached a new high of 89.7 million but there was no increase in the number of carriages. The number of locomotives used increased only marginally and track kilometerage was static. With the liberalisation of imports competition from private hauliers for transport of goods was much greater than in earlier years and the railway's losses increased from Rs. 157 million to Rs. 252 million.

Between 1978 and 1977 registration of private coaches rose six-fold from 266 to 1,575 and 6,425 lorries were registered in 1979. The total number of vehicles registered in 1979 was 42,393 as against 24,214 in 1978, and the figures for 1980 will be even higher judging by registrations.

COLOMBO PORT AND SHIPPING

In contrast to the lumbering juggernauts of the C.T.B. and C.G.R. shipping and port services have functioned with streamlined efficiency. A transformation has come over the port of Colombo. The Ports Authority which was first mooted in the last century has at last become a reality, and so has a coastal shipping service. Even belatedly a start has been made with containerisation.

Colombo port which in the fifties and sixties was deservedly known as one of the worst in the world is now on the way to becoming at least one of the best in Asia. The creation of the Ports Authority in August 1979 coincided with the assumption of duties as Chairman by Mr. Wimal Amarasekera and both events proved to be auspicious. With the liberalisation of imports the port of Colombo has had to clear unprecedented volumes of cargo but has acquitted itself creditably. The waiting period for food cargo ships was reduced from 190 hours in 1978 to 72 in 1979 and the hourly output of import cargo handled improved from 25 tons to 28 tons in the same period. Total cargo handled increased by 19 per cent between 1978 and 1979.

On August 1, 1980 the first anniversary of the Ports Authority President Jayewardene formally opened the new container terminal on which construction work had commenced nine years earlier – an indication of the pace of progress in Sri Lanka. Fortunately there has been an acceleration in work on the scheme after the present Government assumed office. In inaugurating the Ceylon Shipping Corporation's containerised service to the U.K. and the Continent in May 1980 the Chairman, Mr. M.L.D. Caspersz candidly said that "had we not thought of getting into this (containerisation) at this stage it would in any case have been thrust on us for a number of reasons" – an indirect reference to the fact that the Americans began containerisation during World War two and some of Sri Lanka's competitors began the use of containers as far back as 1965.

The Shipping Corporation entered into agreements with the American President Lines in April 1980 for container transportation and with Neptune Orient Lines (the national line of Singapore) for its container service to the U.K. and the Continent. With similar joint collaboration ventures scheduled for 1981 Sri Lanka is even belatedly keeping abreast of international developments. (5)

Containerisation will also be facilitated by the provision of equipment from Japan under the port modernisation scheme for which Japan will provide a loan of 35 million U.S. dollars (Rs. 594 million). The scheme includes the construction of the Korteboam Quay as a container terminal with container handling facilities.

The Minister of Trade and Shipping, Mr. Lalith Athulathmudali ever watchful for staking a claim on behalf of the country said that in obtaining this soft loan "Sri Lanka has created history by getting so much for a single project." (6)

The port of Colombo is now receiving equipment such as fork-lift trucks, cranes, fire-fighting equipment, a computer and a T.V. monitoring system. New berthing tugs have been received and the lighter fleet has also been strengthened.

Sri Lanka's shipping links with Singapore were intensified in July 1980 when the Ceylon Shipping Corporation entered into an agreement with Pacific International Lines to form a new venture Eastern Maritime (Ceylon) Ltd. in which it will hold 51 per cent of the shares. The Pacific International with 63 ships is the biggest commercial ship operator in Singapore and will provide the vessels for shipments from India, Burma, and Pakistan and for trans-shipment on the major routes.

With Neptune Orient Lines ships operating on the U.K./Continent run the Corporation has been able to deploy its conventional fleet consisting of the Lanka Rani, Lanka Devi, Lanka Shanthi, Lanka Ratna, and Lanka Keerthi on a Mediterranean service which results in saving of 40 per cent on freight rates.

The Shipping Corporation made a net foreign exchange saving of Rs. 210 million in 1979. It operates in competition with 21 other lines that serve the routes and is expected to improve its record with the strengthening of its fleet through purchases and joint ventures.

In June 1980 the Ceylon Shipping Corporation celebrated its tenth anniversary and in August Government approved the purchase of seven ships for the Ceylon Shipping Corporation at a cost of 90 million dollars. Three ships of 12,000 tons each are to be obtained from Argentina or an Argentine Government line of credit and four smaller ships will be obtained from South Korea, on a Korean line of credit. The money for the initial down payments was obtained in a Eurodollar loan agreement amounting to 13.3 million dollars negotiated in Hongkong with four major international banks in November 1980. It was the first time Sri Lanka used Hongkong as the venue for signing public sector borrowing.

When Colombo Dockyard Ltd. in which the Government owns 75 per cent of the shares (with 25 per cent belonging to Singapore interests) was formed it was hoped to build a shipyard with a 100,000 dwt. dry dock. By 1980 only ships up to 30,000 dwt. could be taken in but there are now plans for a new dry dock that will be able to take in vessels with 60,000 tons dwt. capacity.

The Coastal Freight Service was inaugurated on November 2, 1980 when the "Atlantic River" was loaded with a shipment of flour from the Prima Complex at Trincomalee for Colombo. The Ceylon Shipping Lines chartered four ships from the German firm, Dietrich Sander and sea transport apart from being more economical than road and rail transport will also enable a quicker despatch of other goods by road and rail. Initially the coastal service is carrying Food Department cargoes but will later expand to carry other types of cargo as well, not only between Colombo, Galle, Kankesanturai, and Trincomalee but also to Tuticorin.

Maritime history was made, when the Association for Shippers' Councils of Bangladesh, India, Pakistan and Sri Lanka with the rather lengthy acronym of ASCOBIPS was formed in Colombo in July 1980, at a meeting presided over by Mr. T. Murugaser, Chairman of the Sri Lanka Shippers' Council. It is the second sub-regional Shippers' Association in the E.S.C.A.P. region, the first being the Federation of A.S.E.A.N. Shippers' Councils. E.S.C.A.P. has played a significant role in promoting inter-regional co-operation among shippers organisations and the Sri Lanka

Shippers Council took the initiative in the formation of the new organisation which augurs well for its member states in improving their bargaining power and making exports more competitive.

Mr. Murugesar observed at the meeting that the Western-based Conferences incurred higher costs than those in the East and if they continued to levy surcharges the answer would be Conferences based in the East. ASCOBIPS could be the nucleus of an Eastern-based Conference which others could join and the ultimate, or logical conclusion would be a Federation of Shippers' Councils from Pakistan to Papua New Guinea which would control about 25 per cent of the sea-borne cargo of the world.

For the first two years Sri Lanka will provide both the Chairmanship and the Secretarial Services to the new organisation. (7)

One of the major shipping problems that has remained unsolved is the question of big shipping interests controlling the transport of the Third World's cargo through "Flags of Convenience Ships" which only give an illusion of Third World control. Sri Lanka has taken up the position both at U.N.C.T.A.D. and U.N. meetings that there should be a gradual abolition of the open registry practice under which the real owners register vessels in a foreign country. Panama and Liberia which have about 25 per cent of the world's tonnage registered under their flags and have a vested interest in the matter argue that abolition of the system is no guarantee that the developing countries will increase their share of international shipping. While buyers of goods are entitled to insist on the mode of transport of goods the same right must be enjoyed reciprocally by Third World countries in the case of their imports. U.N.C.T.A.D. studies have shown that the flags of convenience system prevents Third World countries from increasing their share of bulk cargo. At the Geneva meeting Third World countries succeeded in securing agreement to a full debate on the matter at a meeting of U.N.C.T.A.D's Shipping Committee in 1981. (8)

AIR LANKA

Air Lanka has been described in its own publicity blurbs as "rising phoenix-like out of the ashes of the old." The exaggeration in the metaphor is pardonable but Air Ceylon did not burn itself out of existence. Whatever other records it created in mismanagement or corruption its record in passengers safety could not have been better and the decision to establish Air Lanka in place of Air Ceylon was based on a desire to show (more than symbolically) that the old order had changed. After all Air Ceylon's "flirtations" and "marriages" as the press called them with other airlines had ended disastrously. Air Lanka found an ideal partner in Singapore Airlines.

The transfer of know-how has been generally successful except in engineering where an extension of the original two year agreement is envisaged.

Having commenced operations on September 1, 1979 Air Lanka was expected to show profits within two years but actually broke even within six months of operation. It started with services to Madras, Bombay, Bangkok, Kuala Lumpur, Singapore, Bahrain, Frankfurt and London and when it celebrated its first anniversary it had expanded its network of services to 14 destinations in 13 countries with 60 flights a week. Starting with two B 707 aircraft the airline signed an agreement in April 1980 for two Lockheed L – 1001 – Tristar's at a total cost of around 92 million dollars, and the first of these was in service in November 1980.

Staff strength is said to have "zoomed" from 23 in the first month to 2,000 in the first year and S.I.A. management assistance staff increased from 3 to 40 in the same period.

If the airline's record in its first year can be maintained then there will certainly be justification for a preening of its feathers making the choice of a peacock as its symbol particularly apt.

The only slow take-off in aviation has been in the expansion of facilities at Katunayake International Airport. The formation of the Airport Authority was a long overdue step but the urgent tasks of extending the terminal building, the resurfacing of the runway, the expansion of the parking apron, etc. are all due for completion only between 1981 and 1984.

That the sky is not the limit in what the private sector can offer the public was seen in the inauguration of a private sector domestic air service in June 1980.

REFERENCES

1. Central Bank. Review of the Economy 1978 and 1979.

2. Tribune. November 22, 1980.

3. People's Bank. Economic Review. November 1975.

4. Ceylon Daily Mirror. November 25, 1980.

5. Sun. July 31, 1980.

6. Ceylon Daily News. July 8, 1980.

7. Ceylon Daily Mirror. July 1, 1980.

8. "World shipping for whose conveniences?" by Roy Laishley in "Earthscan" and reproduced C.D.N. October 1, 1980.

Chapter 12

FROM CRUNCH TO CRISIS — the energy problem

Nowhere else in the economy has the gap between plans and performance had such serious economic repercussions as in Sri Lanka's management of its resources of energy. It is customary whenever tributes are paid to the pioneer advocate of hydropower, Mr. D.J. Wimalasurendra, to recall that his efforts were stymied, or stalled, by the ruling British officialdom but no scapegoats can be found for the post-independence period.

After over three decades of independence Sri Lanka with an installed capacity of 330 megawatts of electricity has one of the lowest per capita electricity generation levels at 74.2 kilowatt hours compared with 103.3 for India; 315 for the Philippines; 479 for Malaysia and 4,325 for Japan. (1)

Under Mrs. Bandaranaike's Government there were not merely hopes, but boasts, that Sri Lanka would soon export electricity to India and that once oil was "struck" Sri Lanka would join the ranks of O.P.E.C. ! On February 20, 1975, the Minister of Industries and Scientific Research explaining the work in progress at Pesalai said "All the reasons for hope and optimism are there." Not to be outdone the Chairman of the Petroleum Corporation, Mr. E.R.S.R. Coomaraswamy said "Oil should be coming up by early next year." (2)

No Government can claim that it was not warned of the danger signals that began to be apparent when oil prices began to rise in 1973.

In 1973 the price of oil averaged 4 dollars per barrel and the oil bill for that year was Rs. 274 million . Up to that stage petroleum imports amounted to less than 10 per cent of the country's total import bill.

In 1974 two economists of the Central Bank said the solution to the "energy crisis" was the substitution of domestic resources wherever possible for imported oil and they called for the appointment of a National Energy Authority. (3) The People's Bank in 1975 referring to "the present energy position" said "it is not really a crisis" but it urged the need for "a national energy policy." (4)

Between 1970 and 1977 power demand increased by only 6.5 per cent (as against 14 per cent in 1977 and 15 per cent in 1978), and the share of electricity consumed by industry actually declined between 1975 and 1977. In 1978 however demand at 330 megawatts was only fractionally below the availability of 331 megawatts, In that year the Central Bank again warned that "power shortages could be expected if demand grows fast with rapid economic growth." (5)

The daily electrical demand which was 3.03 million units in 1976 rose sharply to 4.9 million units in the first half of 1980 and 5.6 million units in the second half of 1980.

In 1978 there were seven hydro-electric stations with a capacity of 331 MW and three thermal stations of 70 MW for use in reserve. At that stage there were hopes that the Bowatenna Hydro-electric project with a capacity of 40 MW would be completed by the end of 1979. It had not been completed even at the end of 1980.

The other hydro project, Canyon, with an installed capacity of 30 M.W. on which work began in 1978 to be commissioned in 1980 is also far behind schedule.

The official explanation is that "unanticipated bed rock conditions have been encountered and that delays have (also) occurred in the tunnelling." (6)

That political pressures can outweigh economic considerations is seen in the fact that in 1978 the Ceylon Electricity Board undertook 280 rural electrification projects. It is to the credit of the Central Bank that it bluntly stated that "As the economy is likely to face critical shortages of energy in the near future, the rural electrification schemes undertaken at a rapid rate may prove counter-productive because such projects cater essentially to lighting demand, and thus tend to raise the demand peak."

Even assuming that rural electrification is desirable in itself it is still a fact that political factors are often decisive. At a seminar on "Energy in Sri Lanka" in January 1980, Dr. Susantha Goonatillake, Editor of *Economic Review* referring to the 1,000 villages rural electrification scheme said "The general trend in actual selection for rural electrification over the last ten years or so has been done by priorities allocated by the local elected representatives. The result has been that electricity has been supplied essentially to the local elected members sources of electoral support, namely those villages which supported the person or the social strata that helped mobilise the voters." (7)

The Minister of Power and Energy Mr. D.B. Wijetunge has defended rural electrification by saying that it helped "our people to read in better light thereby preventing one of the major causes of blindness." (8) Expressed that way both logic and humanitarian considerations should prevail but it would be interesting to ascertain whether the incidence of blindness is higher in the rural areas than in the towns and whether reading without electric lights is a cause of blindness in rural areas.

While the votes for rural electrification were untouched in the Budget for 1981 the Ministry and C.E.B. which until recently carried on propaganda appealing to consumers to use more electricity have in recent times penalised both the business sector and individuals for their own failure to meet the country's requirements.

At the end of 1979 the Ministry of Power and Highways officially admitted that the electricity supply would be in deficit within the next few years and that it had therefore been decided that "propaganda on a large scale is to be carried out to decrease consumption" – an extraordinary situation in a developing country. Even more astoundingly the Ministry stated that as it would become necessary to resort to thermal generation from the Kelanitissa power station higher rates would be imposed to recover costs "as well as a deterrent against wasteful use of energy." (9)

It was only after agonised complaints in the press from domestic users that their electric bills had exceeded their house rents that the Government decided to exempt householders using less than 200 units per month from the notorious "fuel adjustment charge" which was almost as much as each month's bill with effect from October 1980.

Sri Lanka had its worst energy crisis between April and June 1980 when demand far exceeded supply and a drought aggravated the situation and power cuts of five hours daily were imposed. The full impact of the effects on national output will only be known when the G.N.P. for 1980 is calculated since power cuts affected every aspect of business activity, industries, and tea estates where power cuts affected the withering process resulting in the production of inferior qualities of tea. The exact losses caused by the power cuts will never be known but they included damage to plant in factories, and domestic appliances in homes. The worst damage was caused by unscheduled cuts or power-shedding.

Although C.E.B. officials tried to blame the crisis situation on the weather and even on consumers saying air-conditioners and cookers were "gobbling up power" the plain fact was that there had been no increase in the power produced since 1976 when output was 331 megawatts of hydro-power and 70 megawatts from the thermal section. The Board, and the Ministry of Power were totally unprepared for the surge in economic activity after the Jayawardene Government assumed power. A marked growth in the use of electricity began with tea factories and some rubber factories switching from oil to electricity in the sixties but the "crunch" came from mid 1977 onwards with the liberalisation of imports. The value of imports of electrical equipment and machinery rose from Rs. 106 million in 1977 to Rs. 554 million in 1978 and Rs. 903 million in 1979. Imports in 1980 were estimated provisionally at Rs. 1,400 million but could have exceeded this figure.

By 1980 even thermal generation had failed to meet the demand and although the Ministry of Power and Energy still kept referring to "wasteful use of energy" the Government decided on the need to commission three gas turbines. The first was commissioned in November 1980 and the second and third units are due to be commissioned in 1981.

Despite the profusion of official excuses the plain fact is that Sri Lanka in common with a number of Third World countries has failed to exploit the potential of its hydro power resources.

According to a paper presented at the eleventh World Energy Conference in Munich in September 1980, Third World countries which had 44 per cent of the world's hydro-electric potential had developed only eight per cent of it by 1980 when they were in the unhappy position of spending one fourth of total export earnings on imports of oil. For India the figure was 40 per cent and for Turkey 60 per cent.

As noted earlier there was no lack of warnings. In September 1977, Mr. D.P. Chandrasinghe, a former Chairman of the C.E.B. warned that the country was heading for shortages of power and energy in 1980/82. One of the forecasts he made was that if immediate action was not taken to solve the energy crisis "Gas turbines will have to be imported at heavy cost" a prophecy that has unfortunately proved correct. At that stage the Minister of Power, Irrigation and Highways appointed a committee of officials to study the power and energy situation and this committee too warned of power shortages from 1980 onwards despite the fact that Bowatenna was then due to be commissioned by the end of 1979. The committee forecast that by 1981 the growth in demand would be so large that new power stations would have to be commissioned every year. What has happened to the hopes generated in the euphoria of the launching of the Accelerated Mahaweli Development Scheme is seen in Chapter 5.

IN SEARCH OF "BLACK GOLD"

Although petroleum products account for only 12 per cent of the country's total energy supply the effects on the economy in costs and prices are very much greater since all transport of persons and goods (excluding bullock carts) are dependent on imported fuel and even lower-income groups use kerosene for cooking.

In order to minimise the impact of increased prices the Government resorted to a policy of "cross subsidizing" under which diesel used for transport of passengers and goods and kerosene used by the poorer segments for both illumination and cooking purposes were subsidised while petrol used by private motorists and taxis was sold at a profit.

While increases in bus and train fares were thereby avoided in 1979 two increases were imposed in 1980. While the consumption of auto-diesel rose by 13 per cent between 1978 and 1979 reflecting increasing economic activity, sales of kerosene fell by 6 per cent indicating that the poorest sections of the community had to drastically curtail use despite the subsidised price and kerosene stamps issued with food stamps. A reduction in the use of cars by motorists is seen in the fact that petrol sales dropped by 11 per cent between 1978 and 1979.

Although the volume of imports of petroleum products remained almost constant between 1978 and 1979 expenditure increased by 60 per cent from Rs. 2403 (SDR 123) million in 1978 to Rs. 3,912 (SDR 194) million in 1979. Almost 50 per cent of this expenditure is recovered from the export of petroleum products which rose from Rs. 945 million in 1978 to Rs. 1926 million in 1979.

In the first nine months of 1980 however there was an increase in imports by 3,000 metric tons as compared with the corresponding period for 1979. What was more staggering was the cost. The value of imports rose from Rs. 2.3 billion in 1979 to Rs. 5.4 billion in 1980 for the first nine months of each year. Imports in 1979 were lower than they might have been due to the closure of the refinery at Sapugaskande for one month to expand its capacity and also due to a shortage of tankers bringing shipments.

Towards the end of 1980 the Ceylon Petroleum Corporation signed seven contracts for offshore drilling. Rizaco International was negotiating to establish a Rs. 12.8 billion petroleum refinery at Trincomalee.

That Sri Lanka has benefited to some extent from recent experience is seen in the terms of the contracts with seven international oil companies. Under the agreements the firms concerned will conduct seismic surveys for 18 months and provide data to the C.P.C. free of cost. If the studies are favourable the C.P.C. has the right to enter into production – sharing contracts over a 20 year period. Of the oil produced 40 per cent will be set off for recovery of production costs and the balance split between the contractors and the C.P.C. on percentages varying from 40 to 60 per cent to 20 to 80 per cent.

The contractors, will be obligated to supply the domestic market with 5 per cent of their share at a concessionary price of 25 per cent less than the F.O.B. Sri Lanka price.

Prospecting is to be carried out off Matara and Hambantota in the South, in the North-West region (where Soviet drilling revealed no deposits in 1976) and from Jaffna to Trincomalee.

After the signing of the agreements the Minister of Industries and Scientific Affairs, Mr. Cyril Mathew recalling newspaper reports of the mid-seventies appealed to the newspapers to refrain from "sunshine stories" but at least one morning paper had a headline – "Hopes run high of hitting black gold." It is hardly necessary to add that headlines are based on what politicians and bureaucrats say. The news item on which the black gold headline was based was an interview with a top official of the C.P.C. who said "Possibilities of finding oil deposits are very high."

At the end of 1980 negotiations were under way for the establishment of one of the biggest oil refineries in South-Asia at Trincomalee by Rizaco International. Under the initial proposals Rizaco and associate companies will provide the financial costs of about 700 million U.S.dollars while the Sri Lanka Government will provide the site of 2,500 acres of land and other facilities for which it will receive 20 per cent of the shares. The Government will also provide exemption from import duties and taxes for crude oil. After 25 years Government will hold 50 per cent of the shares and Rizaco the balance. Trincomalee harbour is to be deepened and modernised to accommodate tankers to carry exports to the U.S.A. and Europe.

In the search for alternative sources of energy a study by the U.S. Department of State Agency (financed by the U.S. Government) has indicated that on present prices a sum of Rs. 87.5 million could be saved in foreign exchange by the substitution of fuelwood for kerosene. A scheme prepared by the U.S. team envisages the establishment of fuel-wood plantations and in addition to saving foreign exchange will generate about 4,500 jobs in rural areas over the next five years. Unfortunately there is a serious lack of data on the quantities of firewood used for cooking just as there is no data for the saving on energy by the use of manpower and animal power. (10) A rough estimate is that about 4 million tons of wood are felled annually for energy. With the felling of forests under the Mahaweli Scheme there may be problems in future in meeting even the existing demand without reforestation but the Forest Department's vote for reforestation was axed in the 1981 Budget estimates.

In solar energy, as in so many scientific advances, Israel has played a leading role. In 1979 Israeli solar-experts working under Professor Harry Zvi Tabor of the Hebrew University successfully completed work on a project which produces the power for the heating and cooling of a 200 room hotel. (11) Around the same time the world's first major telephone system powered by the sun was switched on in Australia's Simpson desert. "It's the music of the future – not science fiction" said Michael Bra-shany of Israel's successful venture.

According to the Minister of Power and Energy, solar energy is a practical proposition but is costly. Arthur Clarke has suggested that at least as an interim measure industries and institutions should be compelled to use solar powered boilers instead of electrical boilers. (12)

The C.E.B. has been experimenting in the use of solar power in its alternate energy project at Pattiyapola in the Hambantota district where experiments have been conducted in converting solar power, and wind power into energy for domestic purposes.

Arthur Clarke has also been prodding the authorities into an investigation of the possibilities of O.T.E.C. (Ocean Thermal Energy Conversion).

In a recent address to the International Institute of Technology at Madras Clarke harked back to an article he wrote 15 years ago in which he said the deep sea canyon off Trincomalee could be one of the best sites for an ocean thermal power plant. The world's first successful ocean thermal plant began operating experimentally not off Sri Lanka however but in Hawaii in 1979. O.T.E.C. will be expensive but still considerably cheaper than nuclear power and fortunately plans are under way for a test plant at Trincomalee. (13) A feasibility study on utilising the ocean temperature differences to produce energy was initiated in July 1980 after Dr. Cyril Ponnamperuma met the President, Mr. Jayewardene for discussions on ocean energy.

Arthur Clarke has observed that although two alternative methods have been developed in Hawaii it does not have the same range of temperature differences found in the sea three miles off Trincomalee. The canyon off Trincomalee is also in close proximity to the land reducing the problem of the transportation of electricity. (14)

The use of nuclear energy is today as much a matter of controversy in

Sri Lanka as the use of hydro power was when D. J. Wimalasurendra advocated it in the early twenties. The Minister of Power and Energy has said that nuclear power would be capital intensive and could be dangerous.

Sri Lanka's leading scientists are almost unanimously opposed to nuclear energy as a means of power generation and so for different reasons are environmentalists.

For the time being the Government has only agreed to an extension of the work of the Atomic Energy Authority in the training of scientists and the National Science Council has appointed a committee to report on the matter.

REFERENCES.

1. Current Awareness Service. No. 80/2. International Economic Co-operation Division. Ministry of Finance and Planning.
2. People's Bank Economic Review. May 1975.
3. Central Bank. Staff Studies. Vol. 4. No. 1.
4. People's Bank Economic Review. May 1975 and June 1977.
5. Central Bank. Review of the Economy. 1978.
6. Performance, Ministry of Plan Implementation. January – September 1980.
7. People's Bank Economic Review. May 1980.
8. Ceylon Daily News. September 22, 1980.
9. Performance. 1979.
10. Sun. November 1, 1980.
11. News Bulletin. Association of France – Ceylonese Technologists. January 1980.
12. Sun. December 1, 1980.
13. International Development Review. 1980. Vol. 22. Nos. 1 and 2.
14. Ceylon Daily News. July 6, 1980.

Chapter 13

BIRDS. BEES. TREES. ENVIRONMENTAL CONSERVATION

At the fourth conference of Heads of States of the Non-Aligned movement in 1973 economic backwardness was described as "the worst form of pollution." Affluence is not a form of pollution but a cause. Sri Lanka has a mix of both with of course a much larger proportion of backwardness.

In Sri Lanka, as in most countries, government and voluntary agencies and many dedicated individuals became conscious of environmental problems after the United Nations Conference on Human Environment held in Stockholm in June 1962. At that conference delegates from 114 nations met together in the realisation that they were the trustees of all forms of life on this planet. The Stockholm conference was both the culmination of a preparatory process that had begun earlier, and the starting point of what has been called the "action process."

One of the 26 agreed principles at the Stockholm conference is of very special relevance to Sri Lanka. It stated that "In the developing countries most of the environmental problems are caused by under development. Millions continue to live below the minimum levels required for a decent human existence, deprived of adequate food and clothing, shelter and education, health and sanitation." Declarations of-course are nothing more than packages of good intentions wrapped up in sonorous and dignified prose. In his key-note address at a seminar on "Environmental Protection and Management" organised by the Sri Lanka Foundation Institute in July 1978, Mr. Victor Tennakoon, Q.C., Chairman of the Law Commission observed that there was no international "law" under which nations were obliged to take steps for the effective preservation of their environment. The Stockholm Declaration was not even a multilateral convention although there are some regional agreements such as the Nordic Convention on the Protection of the Environment. (1)

The then Government of Sri Lanka did not lose much time in acting on the Stockholm Declaration. In 1973 a sub-committee on Environmental Management was appointed to study and report on all aspects of environmental pollution. The Prime Minister, Mrs. Sirima Bandaranaike, in appointing the committee said it would be "prudent to act now and adopt such measures as our necessary to protect and improve the quality of our environment."

Dr. G.C.N. Jayasuriya, Secretary-General of the National Science Council was Chairman of the Committee which submitted a comprehensive report on the pollution of the land, water, and air. The Committee recommended the establishment of a Central Authority for Environmental Management "with statutory powers, or that alternatively some existing government agency should be vested with the functions it envisaged for the Central Authority. One of the main problems it spotlighted in its report was the need to demarcate industrial and residential sites as industries were being established all over the country. (2)

The fact that the Committee could recommend the entrusting of the task of environmental control to any existing agency shows that there was no sense of urgency at that stage and this is also reflected in statements made both by foreigners and nationals. At a seminar organised by the National Science Council and the German Cultural Institute, Dr. Hansjorg Oeltzchner, of the Bavarian State Authority on Environmental Protection said "Sri Lanka seems almost unpolluted to me." He did however qualify this by saying there would be problems "in the near future" unless environmental control was practised." (3)

In his Presidential address to the Ceylon Association for the Advancement of Science, Dr. W.D. Ratnavale said that never in the history of the planet had the earth been "infested by such a plague of humans, living, eating, devouring, breeding, and polluting every aspect of it at the expense of all other living things" but Sri Lankans were either unaware of what was happening or felt that reports from other countries were exaggerated. "Our only qualification to pollution status" he said "lies in the Wellawatte canal and the contributions of the C.T.B."

Towards the end of its term Mrs. Bandaranaike's Government was preoccupied with its own survival problems and environmental problems were relegated to the background. The report prepared by the sub-committee of representatives of the Science Council and the Ministry of Planning and Economic Affairs went the way of all reports.

It was after the present Government assumed office that attention was focussed on the subject again but at the same time there were very real fears that the "lead" projects of development, the Accelerated Mahaweli Diversion scheme, the Industrial Promotion Zone, and Urban Development would lead to a decimation of the country's resources and pervasive and permanent pollution.

Concern turned to alarm when Mr. Upali Wijewardene, Director-General of the Greater Colombo Economic Commission told a seminar on investments held in Cologne that "environmental regulations are not as strict as in some of the other locations."

This statement provoked Mrs. Iranganie Serasinghe, Honorary Secretary of Ruk Rakaganne (society for the protection of trees) to declare that "There was a time industrialists went around looking for tax havens. It is only too well known that today they go around looking for pollution havens." (4)

Shortly afterwards a Japanese firm offered to purchase Sri Lanka's ilmenite at very favourable prices provided this country first got rid of the highly acidic waste effluent. Fortunately the Mineral Sands Corporation firmly turned down the offer. (5)

Meanwhile of course action was taken at the highest levels on problems requiring immediate attention. The President, Mr. J. R. Jayewardene ordered the halting of logging at Sinharaja the only primeval rain forest and the shifting of the Agricultural departments potato farm at Horton Plains.

One of the main problems facing the new Central Environmental Authority will be to consolidate laws scattered throughout the statute book some of which date back over one hundred years. Some of these as mentioned by Mr. Tennakoon at the S.L.F.I. Seminar are the Irrigation Ordinance, the Fisheries, Chank Fisheries, Fauna and Flora Protection, Gas, Factories, Local Government, Housing and Town Improvement, Nuisances and Forest Ordinances and a number of Acts such as the Atomic Energy Authority Act, Radio Active Minerals Act, Mines and Minerals Act, Water Supply Drainage Board Act, etc. Most of these Ordinances and regulations framed under them were flouted with brazen impunity.

The area which has caused greatest concern to ecologists and environmentalists has been the depletion of forest resources but in human terms the greatest losses and misery have been caused by the tragic fact that until very recently the most lethal insecticides were freely available in any part of the country.

A survey conducted by the Occupational Health Division of the University of Colombo shortly before Parliament passed the Control of Pesticides Bill in July 1980 revealed that more than 1,000 persons died each year and 15,000 sought hospital treatment for pesticide poisoning and agricultural areas were naturally the most acutely affected. With 100 cases of poisoning for every 100,000 of the population this was one of Sri Lanka's unenviable world records. Those engaged in spraying were the most vulnerable but accidents, homicides, and suicides also took a heavy toll of life. In 1974 when nearly 1,000 persons died of pesticide poisoning the number of deaths from malaria was only four. In 1977 the number of deaths from pesticide poisoning was 938 whereas the combined death toll from poliomyelitis, tetanus, diphtheria, whooping cough and malaria was 640. (6)

With about 600,000 acres of new land to come under cultivation under the Accelerated Mahaweli Diversion Scheme the enactment of legislation in July 1980 was timely though overdue.

A problem that remains to be resolved is to prevent Sri Lanka, like other Asian countries from becoming the dumping ground of pesticides banned in the West.

One of the earliest warnings of the dangers from the use of chemicals in agriculture was Rachel Carson's now classic work *The Silent Spring*. In Sri Lanka such warnings against any relaxation of vigilance are still necessary. It has been revealed that the defoliant used by the United States in Vietnam is being used in Sri Lanka because farmers have been induced to use it through the not-so-subtle pressure of advertising. Some of these chemicals are carcinogenic, others affect the nervous system, and the process of metabolism. (7)

In the Northern Province application of nitrogen fertiliser has caused a "blue baby syndrome" which threatens the peninsula's infant population (8).

Water pollution is another insidious form of pollution although its victims can be seen in the beds of hospitals. "Kelani water cholera positive – Chief M.O.H." was the headline in an English morning daily in May, 1980. The news item stated that samples of water taken from the Kelani River near the old Victoria bridge had been found to be positive for Cholera Vibrio. Even more horrifying was the disclosure that the Municipal Council of Colombo had been discharging untreated sewage into the river at that point as the sewage treatment plant at Madampitiya had not been functioning for 15 years ! Incredible as it might seem to overseas readers of this book 15 years was not a misprint. (9)

A citizen's organisation known as The Public Interest Committee told the authorities that the water borne sewerage system of Colombo had been introduced 65 years ago and had over-run its design period by 27 years (This was in 1978). That the system still "worked" was due to the fact that raw sewage was discharged into the sea at Wellawatte, into the Kelani river at Madampitiya, and into open storm water drains at several points in the capital city where sewage can be seen floating in drains. When it rains and the mains overflow sewage spurts out of manholes on to the roads and in some cases into gardens and homes. (10) Eric Linklater may not have known this but his remark "Colombo stinks" which caused a furore in a section of the press some years ago is quite literally true.

The canals in Colombo and other parts of Sri Lanka which the Dutch built between 1656 and 1796 are today little better – or perhaps worse than sewers. The Wellawatte canal in the heart of Colombo was described as "a cess pit" by an official of the Colombo Low Lying Areas Reclamation Board because into it are poured not only raw sewage but the dyes of the Wellawatte Spinning and Weaving Mill, waste matter and rotten fruit from a Marketing Department cannery, and spoilt milk from the Milk Board (all government controlled organisations). Shanty dwellers use the canal for washing and toilet purposes. Such is the state of Sri Lanka's canals that workers of the Canal Development Division engaged in dredging have often to be hospitalised according to the Director of the Division. (11)

"A clean environment, kept in that condition by clean and co-operative people is worth a thousand hospital beds" wrote Barbara Ward in her monumental book *The Home of Man*. Sri Lanka provides an example in reverse. Over 30 per cent of the patients in government hospitals suffer from bowel diseases and typhoid due to impure water. It was estimated a few years ago that the Health Department's annual expenditure of Rs. 645 million could be reduced by just over one third if only the basic requirement of clean and pure drinking water could be provided in this country.

At a special session of the U.N. General Assembly held on November 1980 it was resolved to launch the International Drinking Water Supply and Sanitation Decade from 1981 to 1990. Sri Lankans can only hope that it will be more beneficial to them than several "Decades" and "Years" that the U.N. has proclaimed in the past and which our politicians, bureaucrats, and social workers have not failed to observe by going on jaunts abroad.

The malaria epidemic in Sri Lanka in the early thirties attracted international attention. As malaria was brought under control attention was focussed on the scourge of tuberculosis. Today one rarely hears of these diseases and yet impure water kills more persons than malaria and T.B. combined. This fact was mentioned in an S.L.B.C. news broadcast on the night of November 29, 1980, in an account of a seminar held in Colombo. The next day, and in the next few days, I failed to find any reference to this seminar in the newspapers but the *Weekend* publishing the report of its own "Insight" team quoted Dr. Cyril Perera, a paediatrician, as saying that water-borne diseases ranked as the second highest killer of Sri Lanka's citizens and could cause malnutrition and stunting among children. (12)

Does society today react only to the sensational? *World Water* published in the U.K. drew attention to the fact that when about 12,000 people died in an earthquake in Algeria on October 10, 1980, the world was rightly shocked into action and aid poured into Algeria yet on that very same day 30,000 people died in Third World countries because they had inadequate water or sanitation. It is not, and has never been, fashionable in Sri Lanka to dramatise or publicise statistics that reveal the reality of poverty.

"No matter how much it may cost to provide clean water and sanitation the cost is far less than we are now paying for its lack" said Arthur Brown, who, incidentally, is no "reactionary imperialist." He is a Jamaican and is the U.N.D.P's Deputy Administrator and Chairman of the Steering Committee for U.N. inter agency co-ordinating in the Water Supply and Sanitation Decade (13)

U.N. officials have estimated that over one billion of the world's four billion persons drink contaminated water every day and that two billion have no adequate toilet facilities. No one knows the figures for Sri Lanka because these are matters generally swept under the carpet.

What has happened to Sri Lanka's beaches and forests illustrates the point that man is both the cause and the victim of environmental pollution but in the case of the reefs there are also natural forces at work. In his provocatively titled book *Pollute and be Dammed* Dr. A. Bourne cites Sri Lanka as one of the countries where the Acanthas planci, or "Crown of Thorns" starfish has ravaged reefs. He cites the views of scientists who warn that the corals of reefs could become extinct and this would be a heavy blow to the tourist industry as the sea will make inroads into the land. (14) An assessment in 1975 showed that about 3 million cubic feet of coral had been quarried along the East coast. The depredations on the West coast have been even greater.

The attention being paid to the encroachment of the sea along the South coast owing to the brazen exploitation of the coral reefs is a sad example of inadequate laws which provide for fines of only Rs. 50 and failure to enforce even these laws owing to technical requirements such as proving that the coral was from the sea !

A possible, but hopefully far less likely danger to the tourist industry is marine pollution by tankers. At a seminar on "Marine Environment and Related Ecosystems" at the Agrarian Research and Training Institute Mr. Lalith Athulathmudali said that eighty per cent of Japan's oil requirements passed three miles within our shores each day. Just one mishap involving one of those tankers could destroy the tourist and fishing industries, he said. We can only hope that Sri Lanka will be spared disasters like those at Torrey Canyon in 1967 and Amoco Cadiz in 1978.

A Sri Lankan, Mr. Princy Siriwardene, who is Deputy Executive Secretary of E.S.C.A.P. is directing an E.S.C.A.P. project for the protection of the marine environment by assisting member governments in legislative and technical aspects of such protection, and Government is meanwhile ready with legislation that provides for fines of up to one million rupees for offences against the Marine Pollution Law. With the size of tankers increasing from 30,000 D.W.T. to 500,000 D.W.T. in the last thirty years Sri Lanka is now pressing for a traffic separation scheme under the auspices of the Intergovernmental Maritime Consultative Organisation under which tankers will keep to shipping lanes eight miles off coasts. (15)

Industrial pollution has still not been measured or monitored in Sri Lanka despite the growth of industrial estates and complexes and the fact that industrial waste leads even to the contamination of food. The effluents of corporation factories flow into rivers, particularly the Kelani River and tests condicted by the Division of Occupational Hygiene of the Department of Health showed that chromium from tanners had contaminated the leafy vegetable known as "Keera" which is consumed mainly by the poorer sections of the population as it is one of the cheapest vegetables available.

Tests by the City Analyst of the Colombo Municipal Council have shown that a wide variety of vegetables and fruits contained insecticide residues.

The Standards Bureau in highly publicised exercises has persuaded manufacturers of repute to submit their products for testing and approval but no action has been taken to ensure that foods which are a part of the staple diet of all classes do not contain any insecticides or pesticides in excess of W.H.O. standards.

The other form of food pollution or adulteration is in the use of chemicals but here again although tests by the Public Health Department of the Colombo Municipal Council have shown that cordials and confectionery contain a food dye known to cause cancer no action has been taken. "Chillie" powder from bricks, "rose water" from taps, and other blatant forms of adulteration take place every day. (16)

Tests by the Colombo Municipal Council analyst, Mrs. Mercy J. de Silva have shown that of 152 samples analysed from January to June 1980, 71 were adulterated. For instance it was found that all the samples of "arrowroot," a food for infants and invalids, did not contain a trace of arrowroot but were mixtures of wheat or maize starch. (17)

Sri Lanka lacks even a single effective consumer society but according to official sources there are over 1,000 such societies in existence all over the island !

Air pollution in Sri Lanka has fortunately not reached the stage where it could damage even buildings such as the Acropolis in Greece, or the Taj

Mahal in India, but it has become an unpleasant and unhealthy fact of life in Colombo and its outskirts where most industries are sited.

Far and away the greatest damage to the environment has been in the denudation of forests. Within just two decades the forest cover of Sri Lanka has been reduced from 44 per cent to 25 per cent which is considered the minimum necessary to maintain soil fertility and conserve water. In 1956 forests covered 7.2 million acres. By 1980 the figure had dropped to 4.1 million acres. It has been estimated that only 9 per cent of the total land area of the wet zone which is the catchment area of the major rivers consists of forest cover and this will be substantially reduced when about 0.75 million acres are deforested for the Mahaweli programme. (18)

A People's Bank study in 1978 which was based on a survey of world forest resources by the Food and Agricultural Organisation stated that "purely going by recent trends, we could be without any appreciable extent of forest in just another three decades or so, and reach the stature of a "desert" or the state of countries like Singapore and Hongkong which have absolutely no "forests." Singapore and Hongkong are industrial countries unlike Sri Lanka which is primarily agricultural.

The housing schemes and the other development schemes of the present Government necessitated timber requirements which were not available locally and so the State Timber Corporation, the Building Materials Corporation, and private firms have had to import timber in large quantities.

The illicit felling of trees in forests has assumed such dangerous proportions that the President himself recently directed that even helicopters should be used by Government Agents to prevent illicit felling. Landless peasants encroach into forests and poverty causes thefts but the worst offences are committed by organised groups often acting under the protective cover of political patronage.

Of course in speaking of the "loss" of forests it is necessary to remember the "gains". The loss of 1.1 million hectares of forest land resulted in a gain of 0.5 million hectares in the organised agricultural sector and the balance to other forms of cultivation. There has also been reforestation of about 150,000 acres of land.

Under the Mahaweli scheme 700,000 acres of forest will be converted to irrigated agriculture and so the Government has launched a Master Plan for Forestry Development to conserve and develop forest resources. "If this is not done" said the Minister of Lands and Land Development, and Mahaweli Development, Mr. Gamini Dissanayake, "we will be cutting the last tree around the turn of the century."

Under the Master Plan community forests are to be set up in the Mahaweli Development areas and the one million settlers to be moved into the area are to be provided with plants and technical advice in a scheme of community involvement which has been sadly lacking in Sri Lanka in relation to forest resources. (19)

The shrinkage of the forests has resulted in the loss of many forms of fauna and flora and even our elephant population is in danger of extinction.

The new Constitution provides that "The State shall protect, preserve, and improve the environment for the benefit of the community" and it also states that "It is the duty of every person in Sri Lanka to protect nature and conserve its riches."

At a seminar on environment in July 1980 a senior Cabinet Minister said "In this country the natural instinct to respect the environment and preserve it is deeply ingrained from the earliest times." (20) He would have been nearer the truth if he had said precisely the opposite.

REFERENCES

1. Environmental Protection and Management Seminar Report (S.L.F.I. Colombo 1978).
2. Environmental Management in Sri Lanka (National Science Council Colombo 1976).
3. Man and his Environment. (National Science Council and German Cultural Institute 1976).
4. Ceylon Daily News. July 11, 1979.
5. Depthnews. India. June 5, 1979.
6. Weekend. May 11, 1980.
7. Ceylon Daily News. May 5, 1980.
8. Weekend. October 26, 1980.
9. Ceylon Daily Mirror. May 7, 1980.
10. The Sewerage System (mimeographed) March 17, 1978.
11. Sun. August 11, 1980.
12. Weekend. November 30, 1980.
13. World Water (Institution of Civil Engineers, U.K. November 1980).
14. Pollute and be Damned. Arthur Bourne. (London 1972)
15. Sun. July 22 and 23, 1980.
16. Peoples' Bank. Economic Review. February 1980

REFERENCES (Contd.)

17. Karmantha. (I.D.B. Colombo September 1980).

18. Ceylon Daily News. December 12, 1980.

19. Ibid.

20. Ceylon Observer. July 23, 1980.

Chapter 14

THE WAR ON WANT — poverty and malnutrition

There is, to the best of my knowledge, only one library in Sri Lanka with a special section on "Poverty" yet most of Sri Lanka's problems can be summed up in this single word.

Poverty was Sri Lanka's biggest problem on Independence Day and it remains the biggest national problem today.

There have been many definitions of poverty but it is in fact a relative concept. In developing countries like Sri Lanka the problem of poverty simply is a question of meeting the basic needs of the people in food, clothing, housing, employment, health, and education.

"Mass poverty" said Mr. Francis Blanchard, Director-General of the International Labour Organisation in Colombo "is the most terrifying reality that is facing us today. A reality moreover which appears to be deteriorating in a number of countries." (1)

In December 1980 Mr. James P. Grant, Executive Director of U.N.I.C.E.F. estimated that of the world's population of 4,400 million about 780 million lived in "absolute poverty."

In Sri Lanka successive governments have spent an average of 10 per cent of the G.N.P. on education, health, and nutrition. The country has an impressive record of social services; a high life expectancy; a very low rate of infant mortality, and a high rate of literacy but the overall picture is still depressing. This was brought out by the Mission from the International Fund for Agricultural Development which visited Sri Lanka in 1978. In a report that received no publicity locally the I.F.A.D. team stated that if Sri Lanka's welfare performance was "assessed from the point of view of specific deprived groups, for example the marginal farmers, the landless or near-landless class, the lower income groups of estate employees, then it is clear that the picture is not as encouraging as it otherwise looks." (2)

One of the significant points made in this report was that the real incomes of those in the low income households in the rural sector had stagnated, or declined in the period 1963 – 1973. It cited an I.L.O. study of the distribution of pre-tax and subsidy income for 1969 – 70 which showed that the richest 10 per cent received just over 30 per cent of total income which was about ten times the amount received by the poorest 10 per cent of the population. Over a long period there had been a re-distribution of income from the richest groups to the middle-income groups but the position of the poorest had remained practically unchanged.

This whole question has unfortunately been enmeshed in an academic controversy and when academics clash, truth, as in war, is the first casualty.

Dr. Lal Jayewardena writing in 1974 claimed that in Sri Lanka there had been a definite improvement in income distribution: both in the reduction in incomes received by the top ten per cent and in the increase of incomes received by the lowest ten per cent. He said a major cause of the greater equality had been the generation of incomes among small-scale producers in both agriculture and industry, supplemented by legislation to ensure that a higher share of the income accrued to the small-scale producers. (3)

E.L.H. Lee writing in an I.L.O. publication disputed Jayewardena's conclusions based on Central Bank surveys. He said "considerable doubt" should be attached to claims based on Central Bank data that there had been a dramatic reduction in income inequality, or that the situation of the rural poor had improved considerably. "These doubts are based" he wrote "on the statistical problems involved in measuring a change in real income and on the absence of a convincing explanation for the reported changes in the distribution of income. Moreover the data on consumption and real wages point strongly to the fact that there has been an increase in inequality and even a reduction in levels of real consumption by the poor." (4)

Lee's assertions and conclusions were disputed by Dr. H.N.S. Karunatilake who analysed "misconceptions and distortions" in Mr. Lee's paper in 1978. Dr. Karunatilake observed that whatever doubts Mr. Lee may attach to official claims based on Central Bank data there had been a "dramatic reduction in income inequality" and that Mr. Lee had not gone behind the data and understood the real income support policies that had been in operation in Sri Lanka over a considerable period of time. (5)

In such controversies a great deal depends on definitions and criteria. In the I.L.O. publication on "Basic needs, poverty, and government policies" (as in the case of the Seers Mission in 1971) Rs. 200 per month per household was the poverty line.

A Marga survey took a per capita income within a household of Rs. 73 for two months, or Rs. 36.50 per month, as the level of income a household needed to provide its members a marginally adequate diet on a nutritional basis at 1973 prices and in the context of the free rice and other benefits provided by the State at that time. Mr. G.I.O.M. Kurukulasuriya writing in *Marga* noted that the figure of Rs. 36.50 per month was very low and even householders just above that level would be "poor". (6)

As the author of an introductory note to a dossier on *Poverty and Income Distribution* noted in 1980 poverty lines if they were to be of any value had to be adjusted to changes in price levels. This publication also contained the text of a talk given by Mr. Godfrey Gunatilleke on "Reducing Poverty and Inequality in Sri Lanka – Past trends and future developments," which is both the latest and most authoritative statement on the subject.

Mr. Gunatilleke in the course of a wide-ranging and comprehensive analysis (which defies summary) said the figures for 1978 based on the Central Bank's 1978/79 Consumer Finance Survey seemed to reveal a disturbing reversal of trends and a return to the pattern of income distribution in 1973 but no firm conclusions could be drawn since the data available was only in respect of the first of four rounds of the survey and covered the last quarter of 1978. The data covered income receivers and not spending units and as a large number of newly recruited had just entered the workforce (at the initial scale of emoluments) in terms of income receivers there would be a reduction in the share of the lowest decile and movement in the direction of inequality. On the other hand these income receivers were members of spending units whose incomes had risen. Then again real wages had moved upwards with increases in money wages in 1979 and the accuracy of all income data would be affected by the Food Stamp Scheme.

Mr. Gunatilleke said "The main argument that would be adduced in support of a deteriorating pattern of income distribution would be the sharp change of direction in Government policies since 1977. Such an argument would be based on the assumption that the open economy and the policies of liberalisation have released market forces which have favoured the higher income groups. Even if this is accepted, it is difficult to see how such an impact could have been felt within the short period that had elapsed between the change of policy and the survey." (7)

While poverty is pervasive in Sri Lanka two very recent studies both of which were undertaken by foreigners and nationals working together confirm the view that the problem of poverty is more acute and insidious in rural areas than in urban areas.

The authors of a joint study on *The Disintegrating Village* stated that although new bus services, electric lines, and banks were increasingly found in rural areas "poverty shows no signs of fading away, inequality is often alleged to be worsening, and the sense of mutual interest and mutual responsibility which formerly characterised relationships between villages is on the wane." (8)

Why is rural poverty more real than apparent? Why is it that excursions or incursions into the villages do not reveal the real extent of poverty that pervades rural Sri Lanka? M.P. Moore and G. Wickremasinghe who made an in-depth study of three villages in the south probed the questions. Having defined "poor" households as those living in dwellings with mud floors and cadjan roofs they found that in the three villages studied it was possible to drive along all the motorable roads in these villages and not see a single "poor" house. The reason for this state of affairs as their investigations revealed was that the wealthier members of the villages acquired (or inherited) the houses along the roads which provided ready access to facilities such as transport, electricity, water, and itinerant hawkers. There was even an intangible benefit of better information and gossip especially in areas near junctions where boutiques served as a meeting place for social or political gossip.

The location of a house also provided greater access to "extra-village resources" which could range from obtaining employment to various agricultural subsidies. (9)

MALNUTRITION

There are innumerable books on how to deal with the population increase in the world but a fact that is often overlooked is that mankind has failed to feed adequately those billions of people already living on earth. Of these 1½ billion are undernourished and the diets of an additional one billion are deficient in one or more key nutrients says George Borgstrom. (10)

In Sri Lanka too there has been greater emphasis on the need to curb population growth than to ensure that those living below the poverty line (about half the population) are adequately fed.

The history of nutritional planning in Sri Lanka goes back to the thirties. The Nutrition Society was formed only in 1971. Until then the only forum of reasearch in nutritional sciences was the Sri Lanka Association for the Advancement of Science and it was individuals such as Drs.Nicholls and Nimalasuriya and Professors Cullumbine and C.C. de Silva who drew attention to the shortcomings and deficiencies in the diets of Sri Lankans. After the formation of the Nutrition Society, Prof. T.W. Wikramanayake, in a presidential address referred to the need for a national policy on food and nutrition. He said the then Government had been the first to publicly proclaim the need for family limitation but population limitation was a very long term solution to the problems of adequate nutrition. (11) At that stage a committee was appointed to deal with the subject under the aegis of the Planning Ministry.

In July 1976 a Food and Nutrition Policy Planning Division was set up as a section of the Development Planning Unit of the Ministry of Planning and Economic Affairs and this was reorganised as a separate division of the Ministry of Plan Implementation under the present Government.

A wide-ranging and comprehensive report on the problems of "Nutritional status in Sri Lanka, its determinants and proposed corrective measures" was submitted to the Cabinet in October 1980 by the President in his capacity as Minister of Plan Implementation and it was decided to establish District Nutrition Committees throughout the country to co-ordinate the work of government and non-government organisations in protecting the nutritional needs of the most vulnerable sections of the population.

"Total war against malnutrition begins" was a typical newspaper headline (12) but the President's own memorandum showed that the problems of inadequated nutrition are deep-seated and pervasive.

The President's memorandum stated that the problem of nutrition was related to a number of other factors such as incomes, food availability, dietary patterns. environmental sanitation, infections, health, and cultural beliefs.

A survey of rural pre-school children by the Centre for Diseases Control in 1975/76 showed chronic undernutrition (stunting) affected about one third of the pre-school population. The condition increased with age and the national average determined for chronic undernutrition was 34.7 with the incidence of stunting being twice as high in Kandy and Badulla as the average in Colombo and Puttalam. While the overall prevalance of chronic undernutrition was 30.8 in the rural sector it was 62.4 in the estate sector.

Maternal malnutrition was responsible for 22 per cent of the low birth weights recorded in Colombo hospitals but the percentages were higher in rural areas.

At school commencement ages of 4 to 6 it was found in the Nutrition Status Survey of 1975/76 that the prevalence of growth retardation among rural children was sixteen times higher than among children in private and nursery schools in Colombo. (13) The finding was in keeping with the observation of a pioneer, Dr. Lucius Nicholls that the difference in status between urban rich and rural poor was almost as if they were of two different worlds.

Morbidity figures of the Health Ministry have shown that 50 per cent of the cases of illness and death at State institutions are due to bowel and respiratory infections and malnutrition arising from poor hygiene and environmental sanitation, and low food consumption.

According to F.A.O. and W.H.O. computations food supplies have been on average sufficient to meet minimum nutritional requirements.

There is a lack of data to determine levels of food production but it is known that starchy staples and vegetable fats supply about three fourths of the calories in the diet. 60 per cent of protein supply is derived from cereals with fish and pulses constituting 14.5 and 10.2 per cent respectively.

Sri Lanka's main nutritional problems have been malnutrition, nutritional anaemia, Vitamin A deficiency, and goitre according to the National Nutrition Survey of 1975/1976 undertaken by the Ministry of Health with assistance from C.A.R.E. and U.S.A.I.D. Protein energy malnutrition was found to be worst in the central highlands. Nutritional anaemia affects all age groups but mostly children and expectant mothers, and more so among rural than urban groups. Vitamin A deficiency was particularly marked in the Kegalla and Matale districts while endemic goitre was most prevalent in the south west and central regions. (14)

It is one of the elementary facts of life in Sri Lanka that rice consumption in terms of a balanced diet is excessive. Attempts to change patterns of consumption to the more nutritious maize, sorghum, kurakkan, etc. when there was a shortage of rice during the last War were largely unsuccessful and were abandoned after the War. More recently in 1973 there was a world-wide shortage of rice and flour and there was an increase in both production and consumption of manioc, maize, and sorghum. The Government launched a "Production War" to increase the production of subsidiary foodstuffs but in the following year wheat supplies eased and the "War" was forgotten. As in affluent nations maize, and sorghum are now used largely for poultry feed.

Prof. Wikremanayake blames bureaucrats as being the chief obstacles to change. With their elitist tastes they presume that the population at large are also against changes in the pattern of food consumption.

Malnutrition operates in a vicious circle with its ill effect being passed on from generation to generation. There is now evidence that protein deficiency can cause irreversible brain damage. Children from poor homes are mentally handicapped and often drop out or leave school early.

While bureaucrats are never agents of change Sri Lanka has gone further in calling into consultations and the formulation of policy foreign "experts" who cannot be expected to be even aware of local tradition and cultural norms.

The distribution of Triposha, a fortified wheat-sorghum flour biscuit and biscuits sponsored by C.A.R.E. has had some effect in reducing malnutrition but it is admitted even in official quarters that there are still problems ranging from the logistics of transport to dishonesty in distribution.

A significant step in combating malnutrition at all levels of the population was the opening of the Triposha Processing Complex at Ja-ela in September 1980. The complex which is managed jointly by the Ministry of Health, C.A.R.E., and Ceylon Tobacco Co.,Ltd. is one of the largest low-cost food processing plants in the Third World.

It is axiomatic that poverty is a cause of malnutrition but so is ignorance and in Sri Lanka the problem of ignorance is compounded by cultural and religious taboos and superstition.

Both nutritional deficiencies and climate affect the output of workers. Nutritional deficiencies affect working capacity and susceptibility to disease and as Gunnar Myrdal has observed workers in tropical climates wield their tools with a feeble stroke and take more frequent and longer rest breaks than workers in cool climates. "The sultry and oppressive climate that much of South Asia experiences all, or most of the time, tends to make people disinclined to work" he says. (15)

A Marga Institute study of basic needs of children and adolescents which was commissioned by U.N.I.C.E.F. showed that the data available in different surveys conducted for different purposes and among different groups had yielded varying and even conflicting conclusions. The results of a 1973 survey which were published in the *Marga* journal indicated that there was no major nutritional problem in the country except that in the under Rs. 200 group, except in estates, there was a considerable degree of under-nourishment particularly among the urban poor and in households with incomes of below Rs. 100. There was only marginal adequacy in the Rs. 200 - 400 group. On the other hand studies conducted by the Medical Research Institute confirmed the view that there was widespread protein-calorie deficiency especially in the lowest income groups among which there was a high incidence of anaemia consequent on iron, foliate, and calcium deficiencies. The insufficiency of the degree of sampling in such surveys is seen in the fact that one study of nutritional standards on estates was based on an investigation of the diets of 347 workers. There were other studies in which the numbers of workers or colonists were even smaller. The *Marga* study called for more representative and systematic surveys of nutritional levels in the country.Another shortcoming in these surveys is that by the time the data is collected, analysed, and publicised living conditions among the groups involved have generally deteriorated with rising food costs owing to inflationary trends and the policy of the phasing out of subsidies. (16)

Economic projections can be as contrary and confusing as astrological predictions.In 1975 Dr. Henry Kissinger said that within a decade no child would "go to bed hungry, no family will fear for its next day's bread, and no human being's future and capacities will be stunted by malnutrition." Half that decade is over and the problems of malnutrition have only worsened in recent years with economic regression and inflation.

An F.A.O. report *Agriculture: towards 2000* states that hunger could could be abolished but this is not likely to happen in the present century. The world's resources have to be redistributed and production in developing countries has to be modernized. There is a need as Caroline Moorehead says "to break the cycle of abject poverty and to distribute wealth so that people can afford to produce food themselves. The poor are mal-nourished not because they are ill, or their diet is deficient, but because they do not have the purchasing power to buy the food that exists." (17)

As between the developed countries and the developing, and again between various economic strata within the developing countries, the problem is basically one of maldistribution in which purchasing power prevails over needs.

In the cold arithmetical terms to which all human tragedies have been reduced one of the basic causes of malnutrition is that the developed countries with less than 30 per cent of the world's population utilise 50 per cent of total cereal supplies, and two-thirds of this quantity are fed to livestock. A small fraction of the 400 tons of cereals used this way would suffice to bring everyone in the world up to the nutritional minimum. (18)

Another "pessimistic" scenario as visualised by Dr. Norman Borlang, says that in the next 40, 60, or 80 years depending on how population growth changes world food production will have to be increased by at least as much as was achieved from the beginning of agriculture 12,000 years ago "just to maintain per capita food production at the inadequate 1975 level." (19)

THE SUBSIDIES

The aim of the present Government has been the containment and rationalisation of subsidies. It has not hesitated or feared to take action in respect of subsidies which were earlier regarded as sacrosanct, notably the rice subsidy. In his first Budget Speech the Minister of Finance and Planning, Mr. Ronnie de Mel, announced the Government's intention to end the scandal that had persisted for almost four decades whereby even the richest had received free rice from the State by limiting the issue of free rice to those who earned under Rs. 300 per month. Mr. de Mel succeeded where his predecessors had failed. Some Left parties tried to instigate ration book holders into refusing to part with their ration books but the entire exercise was carried out without a single incident anywhere in the Island which speaks volumes for the innate good sense and law abiding nature of the people of the country.

An eminent Sri Lankan economist, Dr. H.N.S. Karunatilake had predicted in 1971 that the subsidies could be curtailed. In a major study of the economy Dr. Karunatilake wrote that subsidised rice had become a political weapon for winning votes, or discrediting the Government in power. If one party raised the price of rice, or cut the ration the party in opposition promised to reduce the price or restore the ration "On their own it is most unlikely that the people would take up the issue strongly" he wrote, and this forecast proved correct in 1977. (20)

The subsidies, as Mr. de Mel explained, had hampered both development and the provision of employment. "We cannot be a nation of beggers forever" he said but at the same time the basic needs of the poorest were protected by providing free rice for all those earning under Rs. 300. Subsidised rice and flour had, in effect, been subsidies for the foreign growers of rice and wheat. This anomaly was ended but the interests of Sri Lanka's own paddy farmers were protected.

With the cut-off point at Rs. 300 per month about seven million people, or half the population, were still entitled to one pound of rice free and to three pounds at Rs. 1 per pound per week. Flour, sugar, infant's milk food, petroleum and kerosene, fertilizers, and bus and train transport continued to be subsidised at the total cost to the exchequer of Rs. 3,225 million. Mr. de Mel said that if this money too had been available for development lakhs could have been employed. As for expenditure in the past which had been drained away in consumption Mr. de Mel recalled that the total cost of the Senanayake Samudra and the Gal Oya headworks had been Rs. 60 million. "How many Gal Oyas could have been built if these subsidies did not exist?" he asked rhetorically.

Despite the efforts of the Minister of Finance to reduce the food subsidy, expenditure rose steeply from Rs. 1,424 million in 1977 to Rs. 2,162 million in 1978, due mainly to the changes in the exchange rate and the increase in the guaranteed price for paddy from Rs. 33 to Rs. 40 per bushel. The subsidy on flour increased by Rs. 664 million and the total subsidy on rice and paddy amounted to Rs. 1,066 million. A significant feature of the sharp increase was that owing to a sharp increase in the price of imported rice it cost Rs. 16 per bushel more than the price paid for country grown rice. (21)

The Food Stamp Scheme introduced in September 1979 was another step towards rationalisation of the subsidies. The scheme was based on the Government's thinking and policy that subsidies should not be granted on commodities which were made available to all irrespective of their income. Food stamps were made available only to persons whose family income was below Rs. 300 per month. The scheme, as Mr. de Mel observed, marked "a radical departure from the system of consumer subsidies that prevailed in the country for the last 30 years or more, where a fixed quantum of specified items were guaranteed to all consumers, rich and poor alike, at well below market prices." The scheme had the added benefit that the poorest who benefited, by it were able to choose from a basket of commodities rather than purchase a limited number of subsidised and often rationed commodities.

Under the Food Stamp Scheme children below 8 years received stamps to the value of Rs. 25. Those between 8 and 12 received Rs. 20, and all those over 12 received stamps to the value of Rs. 15 per month.

Each family unit entitled to food stamps is also entitled to kerosene stamps worth Rs. 9.50.

The number of beneficiaries was 7.3 million or about half the population living in 1,600,000 households.

The revision of the prices of rice, flour, and sugar to world market levels which the Government paid as importer resulted in a reduction of the food subsidy bill by Rs. 650 million – the biggest single saving ever effected. In 1978 the price of flour was increased thrice but flour was still sold at below the prices paid by Government.

While almost abolishing consumer subsidies except by way of the Food Stamp Scheme the Government maintained subsidies aimed at increasing production. These were the fertilizer subsidy (Rs. 800 million) the Milk Board subsidy (Rs. 55 million) and the green leaf tea price support scheme (Rs. 65 million). A different type of subsidy but one which is crucial to divert money from consumption to investment was the subsidy of Rs. 258 million to the National Savings Bank. (22)

A recent review of the working of the Food Stamp Scheme which was conducted in six districts by the Minister of Plan Implementation showed that 77 per cent of the stamps were used to consume rice and in the district of Matale the percentage was as high as 91, although holders were offered a variety or "basket" of commodities to choose from. It had been hoped that the introduction of the scheme would encourage a greater consumption of milk products by the young but this has not proved the case in the six districts sampled which were representative of the rest as well. Sugar ranked next to rice in the order of preference except among the poorest groups in rural areas who use jaggery as a sweetner for tea.

Another shortcoming revealed in the scheme was that as it was based on household income and not per capita income. Households with large families did not benefit as much as the others. (23)

A direct subsidy which the present Government introduced and abolished after a period of two years was the Income Support Scheme under which unmarried unemployed persons between the ages of 18 and 40 received Rs. 50 a month if the aggregate income of the family did not exceed Rs. 6,000 per year.

It had been expected – on the very vague estimates of unemployment– that about one million persons would be eligible. Only 400,000 applied and 360,000 were deemed entitled to it. This number was further reduced by about 50,000 during the first year of operation. It is a safe assumption that many who were not deserving received the payment while others who were entitled to it did not receive the allowance owing to ignorance of the scheme or inability to obtain bureaucratic sanction.

Between August 1978 when the scheme was introduced and December 1980 Rs. 110 million was paid out. In 1979 the scheme cost Rs. 243 million and in the first five months of 1980 before it was abolished it cost Rs. 119 million.

The money "saved" is to be utilised for development work under the decentralised budget.

The introduction of the Income Support Scheme was based on a misconception that poverty and unemployment are closely inter-related. Earlier I.L.O. studies had shown that although poverty and unemployment often overlap they are far from identical. Those below the poverty line are not necessarily unemployed and the unemployed do not often belong to families under the poverty line. A survey in 1970 had shown that only 19 per cent of the unemployed in urban areas, 35 per cent in rural areas, and 42 per cent in the estate areas were from families with incomes of under Rs. 200 per month which was then regarded as the poverty line. (24)

The Income Support Scheme was a blunder but it was a blunder that the Government did not take long to remedy.

While agricultural credit to farmers is not regarded as a subsidy but as a facility or "input" towards increased production the failure of the State banks to recover such loans which are often granted at the request of politicians has made them a subsidy which costs the State several hundred millions annually.

A contributor to *The Disintegrating Village* which covered the greater part of the seventies in commenting on the politicization of the rural areas said "The M.P. became the main channel from government agencies. The public bureaucracy was to a large extent reduced to serving the M.P.'s wishes." (25)

With the relaxation of the eligibility criteria from the Maha season of 1977/78 loans granted under the Comprehensive Rural Credit Scheme amounted to Rs. 420 million and the Central Bank noted that only 20 per cent of these loans were repaid and lending criteria had to be tightened for the Yala 1978 season. (26) According to Dr. H.N.S. Karunatilake Senior Deputy Governor of the Central Bank the inefficient machinery of the State commercial banks was the cause of non-recovery of loans running into hundreds of million of rupees. (27)

Another area in which loans become not just subsidies but grants is in loans to undergraduates who are supposed to repay loans received during their period of studies after they obtain employment. In 1980 it was estimated that a sum of Rs. 75 million granted as "loans" had not been repaid to the two State banks.

The decision by the Government to distribute free text books from 1980 to school children up to Grade 9 could strictly be regarded as a reversal of Government policy on subsidies but it was in keeping with the Government's declared intention of helping the poorest. Mr. de Mel in explaining the Government's position said that while it recognised "the need to transfer resources from consumption to investment" it was aware and mindful of the need to achieve such a policy "without hurting the weakest and most vulnerable sections of our people."

After 32 years of independence Sri Lanka in 1980 finally found itself in the position which the President Mr. J.R. Jayewardene visualised in his Budget Speech in 1948 in which he said that social services which were not a means of creating wealth but of distribution it should not be allowed to have "prejudicial effects on the national economy." On that occasion Mr. Jayewardene also stated that "if the entire national income is distributed equally it would make beggars of us all."

It was the I.L.O. mission headed by Professor Dudley Seers which said "Once hard decisions have been taken and implemented, the way ahead will look less impossible."

Sri Lanka is in that fortunate position today.

REFERENCES

1. **The Poor in Asian Development.** An I.L.O. Programme.

REFERENCES (contd.)

2. Report of the Special Programming Mission. (International Fund for Agricultural Development.) Rome 1979).

3. Redistribution with Growth. H. Chenery et. al. (London 1974).

4. Poverty and Landlessness in rural Asia. I.L.O. Geneva 1977.

5. Staff studies Vol. 8. No. 1. See also Vol. 4. No. 1, and Vol. 6. No. 1.

6. Marga. Vol. 5. No. 4. 1978.

7. Poverty and Income Distribution. Dossier No. 72. Centre for Society and Religion. (Mimeographed)

8. The Disintegrating Village. Social Change in Sri Lanka. Edited by Barrie M. Robinson, M.P. Moore, M.U. Ishak Lebbe. (Lake House Investments 1979).

9. Agriculture and Society in the Low Country. (Sri Lanka). M.P. Moore, and G. Wickremasinghe (A.R.T.I. and Institute of Development Studies U.K.) 1980.

MALNUTRITION

10. The Hungry Planet. The Modern World at the Edge of Famine (London and New York).

11. Nutrition and National Development. Presidential address at first annual sessions of the Nutrition Society. November 1976. Colombo. (Mimeographed)

12. Ceylon Daily News. September 11, 1980.

13. People's Bank. Economic Review. April/May 1979.

14. Ibid. March 1979

15. Asian Drama. An Inquiry into the Poverty of Nations. Gunnar Myrdal. (New York 1968).

16. Needs of Children and Adolescents. A case study of Sri Lanka. Marga. 1975.

17. The Times (London) June 3, 1980.

18. Setting a social maximum and a social minimum for food and nutrition. K.C. Abercombie Chief of Policy Studies. F.A.O. (A.R.T.I. synopsis and reproduction series. No. 70).

19. The Times. August 1, 1980.

20. The Economic Development of Ceylon. Dr. H.N.S. Karunatilake (New York 1971).

21. Central Bank. Review of the Economy. 1978.

22. People's Bank. Economic Review. March 1989.

23. Ceylon Daily News. November 28, 1980.

24. Central Bank. Bulletin June 1980.

REFERENCES (Contd.)

25. See 8 above.

26. See 21 above.

27. Sun. October 7, 1980.

Chapter 15

TRANSCENDING PARTY POLITICS — population control

Population control is one sphere of activity in which there has been continuity of policy by successive Governments in Sri Lanka. It is a subject which has been raised above the level of party politics resulting even in Government and Opposition politicians showering each other with compliments at seminars. Here at least a national outlook prevails over narrow political considerations and all these factors augur favourably for the future.

This was clearly demonstrated during the visit of a Mission from the United Nations Fund for Population Activities led by Miss Julia Henderson from March to April 1980. The Leader of the Opposition, Mr. A. Amirthalingam, who is a member of the Parliamentary Consultative Committee of the Ministry of Plan Implementation pledged the support of the Tamil United Liberation Front to the Government's programme on population and family planning and Mrs. Siva Obeysekere, who was Minister of Health in the latter part of Mrs. Sirima Bandaranaike's Government readily responded to a gesture by Dr. Wickrema Weerasooria, Secretary, Ministry of Plan Implementation when he invited her to be leader of the national counterpart team to the U.N.F.P.A. mission.

In this respect Sri Lanka is in a much more fortunate position than India where the excesses during Mrs. Gandhi's emergency rule from 1975 to 1977 gave population control such a bad name that Mrs. Gandhi's policies were reversed by the Janatha Government and Mrs. Gandhi was compelled to adopt a very cautious policy after her party was returned to power in 1980.

Sri Lanka is exceptional again in that trends here have been contrary to accepted economic and demographic theories. It has, as Alex Marshal, U.N.F.P.A. Co-ordinator in Sri Lanka, observed, long been "an article of faith that poverty and rapid population go together like sin and retribution: you can't have one without the other." (1) For Sri Lanka the prospects were dark and foreboding, but Sri Lanka proved the experts to be wrong.

In the early seventies there was a marked drop in the growth rate from 1.82 in 1972 to 1.75 in 1973 and 1.55 in 1974. The growth rate began to rise again from 1975 when it was 1.57 to 1.66 in 1976. After a very slight drop in 1977 to 1.64 an upward spiral began again. In 1978 the growth rate was 1.79 and the provisional figure for 1979 is 1.90.

The slow rate of growth of about 1.7 per cent in the seventies was due partly to migration under the Indo-Sri Lanka pacts of 1964 and 1974. The migration rate which was 2.6 in 1971 increased up to 4.0 in 1974 and has averaged 3.0 since then. The repatriation of 600,000 persons of Indian origin on the plantations should have been completed by 1979 according to earlier plans but fell considerably behind schedule owing to administrative delays. It is a fairly safe assumption however that the process of repatriation will be completed by the end of the present decade.

In 1978 the number of births shot up to 404,780 which was an increase of about 15,000 over the previous year according to statistics provided by the Registrar-General. In 1979 the number of births was even higher at 415,695. The Director of the Population Information Bureau said there were 16 more babies born every hour in 1979 over the hourly birth rate in 1978. (2)

The prognosis for the future is that population growth can only be contained if there is a reduction in fertility.

Mortality levels cannot fall very much below the present levels in the foreseeable future and the repatriation of persons of Indian origin as seen earlier will end in about 10 years.

The death rate which was 7.6 in 1971 was 6.4 in 1979 according to provisional estimates. The highest number of deaths in the seventies was 119,518 in 1974. The figure fell thereafter gradually to 93,921 in 1979.

One of the slick phrases used about Sri Lanka is that it has a "Western death rate and an Asian birth rate." It is certainly a fact as S. Selvaratnam and S.A. Meegama stated in 1971 that "Death rates have already declined to low Western levels and have remained more or less stabilised at this level over a number of years. Any substantial decline in these rates will not occur in the future, and even small decreases will require heavy investment in housing, sanitation, medical care, and other social welfare programmes." (3)

Government officials had a bitter pill to swallow when Miss Henderson, leader of the U.N.F.P.A. team rapped them with the remark that "Many officials at all levels dealing with development did not recognise the gravity of the population problem in Sri Lanka." (4)

It is a poor reflection on the medical and health services available in the country that the existing facilities are inadequate to meet the demand for sterilizations. In April 1980 authoritative Government sources admitted that although 3,157 sterilizations had been performed in the first two months of the year in respect of both women and men this "was only a fraction of the total number of persons who voluntarily requested the operation." (5)

A shortage of anaesthetists, and theatre time, staff, and space were attributed as the main reasons for this deplorable failure on the part of the authorities to deal with a situation in which the desires of individuals dovetail with the Government's plans and policies and national needs.

Although data on some family planning methods was not maintained between 1974 - 1977 there is sufficient evidence for the conclusion made by Dr. Malcolm Potts, Consultant Overseas Development Ministry, London, and others that in sterilization and other methods the demand outruns services. In a study undertaken for the Ministry of Plan Implementation in 1975 Dr. Potts observed that "Young couples, on average, want only 2.5 children although most families in the country have well over 4." Even more alarming was his finding that "the majority of those who want no more children are not using contraceptive services and much of the current decline in fertility is due to later marriage, rather than the voluntary control of fertility. Although achieved fertility is declining, the demographic problems facing the country remain formidable particularly in relation to future unemployment." (6)

Dr. Potts went on to make what is probably the strongest indictment of Sri Lanka's endeavours in this field when he said "At a time when desired family size is falling rapidly and fertility rate in all groups is beginning to change, the number of family planning acceptors in the Government and Family Planning Association programmes instead of rising to meet demand, has plummeted disastrously. It must be concluded that the policies behind family planning programmes in recent years have been in serious error. The attention which has been paid to motivation – particularly in U.N.F.P.A. and I.P.P.F. funded projects – has been largely redundant, while the effort put into services – particularly by the Health Bureau – has not generated service of the type so urgently wanted by the people."

The observations made by Dr. Potts in 1978 had been the subject of comment earlier in The Terminal Report of the W.H.O. and the W.F.S. (World Fertility Survey) which also noted that there had been no falling off in motivation or demand for family planning and that if women were able to achieve their stated intentions the average completed family size would be 2.4 children.

In the past a shortage of doctors was attributed as one of the main reasons for the slow progress in the rate of sterilizations. The hollowness of this excuse was exposed by Dr. Potts, who showed in 1978 that a target of 100,000 sterilizations annually could easily be reached if only 300 (of the total cadre of 4,000 doctors) performed 3 sterilizations each day. That Dr. Potts was very much on the low side is seen in the fact that when certificates were awarded in 1980 to doctors who had performed over 100 sterilizations in a year one doctor had a record of over 700 sterilizations. And there are about 400 doctors in Sri Lanka engaged in purely administrative duties. There are times when it takes an outsider to spotlight our shortcomings and this certainly is a case in point. I find that Dr. Wickrema Weerasooria has made the same point in an article entitled *Family Planning –Lanka's dilemma.*

"It is sad irony" he wrote "that we Sri Lankans often know when our policies and programmes are going the wrong way and not showing the desired results, but it takes a foreigner, an "expert" or a "consultant" or an international agency whether it be the World Bank, or the I.M.F. to identify the basic problems and to surface the main issues in the form of a report." (7)

1974 was the peak year in sterilization when 42,000 operations were performed (36,000 tubectomies on women and 6,000 vasectomies on men).

By 1978 however the number of operations had dropped to 20,000. In 1979 there was an improvement with approximately 35,000 operations and the final 1980 figure will probably be much higher than the 1974 figure following the increase in the incentive payment from Rs. 100 to Rs. 500 from October 1, 1980.

First reactions to the increase in the allowance were in some areas hilarious. A correspondent in Trincomalee reported that persons who had undergone sterilization "get up from the operation table stretching out hands to get the payment voucher." By no means funny was a report from Kandy where Municipal Councillors said youths were undergoing vasectomies to obtain the Rs. 500 to purchase L.S.D. At Nuwara Eliya a surgeon completed 147 vasectomies in a single day. (8)

It soon became clear that apart from providing "that little push" towards a decision the Rs. 500 allowance was being exploited even by persons past the child bearing age. Dr. Weerasooria announced at a press conference that from November 1, 1980 women over 45, and men over 50 would not be entitled to the payment. (9)

However Sri Lanka is still behind most countries in its rate of success in sterilization. There may have been a large degree of compulsion in India where eight million sterilizations were carried out in a single year during Mrs. Indira Gandhi's first term of office as Prime Minister but even predominantly Roman Catholic countries such as the Philippines have been more successful than Sri Lanka. There were 170,450 sterilizations in the Philippines between 1974 and 1977 which thus averted around 125,000 births in the following years. (10)

Since sterilization is the only contraceptive method that keeps the chances of conception below one in a hundred there is an imperative need for greater availability of the facility particularly to younger couples. Sterilization, as Dr. (Miss) Siva Chinnathamby, Medical Director, Community Development Services, has stated is not only the most effective contraceptive method but also does not call for sustained motivation and expenditure.

A clear and precise statement of the present Government's attitude to family planning was made in its first policy statement when it said "Enhanced family planning services will be provided by the State and financial incentives with a view to controlling the population explosion will be given to individuals who practise family planning."

The importance the present Government places on population control is reflected in the fact that the formulation and implementation of population policy is entrusted to the Ministry of Plan Implementation of which the President himself is the Minister in charge. In addition when a new portfolio of Minister of the Colombo Group of Hospitals and Family Health was created the Minister in charge, Dr. Ranjith Atapattu, was also placed in charge of the Family Health Bureau which implements the Government's Family Planning Programme.

Another extremely significant measure adopted by the present Government was when tax policy was geared to the control of population growth in the second Budget announced on November 15, 1978 when the Minister of Finance and Planning, Mr. Ronnie de Mel introduced a tax scheme which will act as a disincentive to large families. This was achieved by the abolition of an almost antiquated system of providing tax reliefs for up to four children. In granting a flat allowance of Rs. 12,000 to each taxpayer the Minister said there would be further disincentives to large families. "Population growth" he observed "must be curbed if we are to achieve our objectives of eliminating unemployment, shortages of food and housing, and the depletion of our natural reserves."

In 1980 Government announced that all couples married after January 1, 1978 who do not have more than two children when they retire will be entitled to have 15 per cent added on to their pensions or provident funds at the time of retirement.

Sri Lanka thus moved closer to the Singapore model where maternity leave, hospital charges, and even educational facilities for children are all devised to encourage small families but the Government baulked at the point of following other Asian countries such as Singapore, China, and India in the liberalisation of abortion laws. Under the stringent and restrictive law in force in Sri Lanka abortions may only be perfomed to save the life of a mother. There was a strong body of opinion that Sri Lanka should fall in line with other countries (including even Italy) but the whole question got enmeshed in a largely ill-informed public controversy and the Government felt it was politic to announce that no changes were contemplated.

Meanwhile it remains a tragic fact that large numbers of women die each year owing to incomplete abortions which is the clinical term for miscarriages. In 1977 over 500 women were admitted to the University Hospital in Kandy with a history of incomplete abortions.

Dr. Potts was guarded in his comments on abortion in the official report he submitted to the Ministry of Plan Implementation, but at a press conference he said – "It does strike me as odd that on this matter you should follow a law passed in Queen Victoria's time."

As far back as 1974 when the Family Planning Association celebrated its 21st anniversary with an International Scientific Congress in Colombo, Sir John Peel, former President of the Royal College of Obstetricians and Gynaecologists said liberalized abortion laws were the most effective and rapid way of reducing the rate of population growth. (11) There will obviously have to be second thoughts on the subject.

In the last decade or two delayed marriage – often due to unemployment – contributed to the slowing of population growth but the increased employment opportunities after the present Government assumed office seem to be negating this trend.

Statistical data for the present century shows that there has been a definite tendency among both men and women to delay the age of marriage and this was particularly noticeable in the fifties and sixties as the table below indicates.

Year		Men		Women
1901	.....	24.6	.....	18.3
1911	.....	26.5	.....	20.8
1921	.....	27.0	.....	21.4
1946	.....	27.0	.....	20.7
1953	.....	27.2	.....	20.9
1963	.....	27.9	.....	22.1
1971	.....	28.0	.....	·23.5

A very detailed analysis of mean ages at marriage classified into general marriages, Kandyan marriages, and Muslim marriages in the E.S.C.A.P. monograph on Sri Lanka shows that a high proportion of women marry between the ages of 15 and 29 while most men marry between the ages of 20 and 34. The availability of men and women can depend not only on the numbers in these age groups but also on other factors such as the ability to provide dowries in the case of women, and employment among men. There have unfortunately been no surveys of the social implications of the dowry system but is has been established that unemployment is high among men in the age group of 20–29. It has been observed that in all Census years and among all age groups the proportion of unmarried men is higher than the proportion of unmarried women. (12) This is due not only to the fact that men out-number women in all age groups but also to social norms. There is no stigma attached to bachelordom as there is to spinsterhood.

One of the factors which can radically change the marriage rate is the dowry system. Alex Marshal, U.N.F.P.A. Co–ordinator in Sri Lanka has pointed out that if the dowry system is abolished it could lead to a large increase in the number of marriages and women marrying earlier than they now do. Some women's organisations are campaigning against the dowry system as an antiquated anachronism but it has had at least one beneficial effect in helping to reduce the growth of population.

Empirical studies have shown that literate workers have more knowledge of, and are more receptive to, family planning programmes than illiterate workers engaged in the same work sites or factories. Literates have positive attitudes to innovative behaviour or modern practices than illiterates. (13) Sri Lanka has been winning the battle against illiteracy ever since the introduction of Free Education in 1945 and it is widespread literacy that has been one of the main factors in the acceptance of family limitation methods.

It is too early to draw any conclusions as to whether increasing employment opportunities are having an impact on the age of marriage and fertility rates but the likelihood of a connexion between the two has been noticed by observers of demographic trends in Sri Lanka. Dr. George Immerwahr, former W.H.O. adviser to the Government has stated that "better times might mean more marriages and more babies among younger women." On the other hand Alex Marshal has shown that the age at marriage has shown a constant tendency to rise and so "perhaps good times will not mean a burst of marriage euphoria."

Increasing literacy, like late marriage has been another factor in the success Sri Lanka has achieved so far in controlling population growth.

While not specifically advocating a single-child unit Immerwahr has shown that the only way to prevent a "frightening" growth of population is to have a single child family unit. "Statistics have shown" he said "that for every number of first born children in this country every year, there is an approximate number of deaths of people of all ages. If therefore every couple were to limit themselves to one child the population will remain static for 30 years after which it will decline."

China which began family planning policies only in 1964 has succeeded in reducing its rate of growth in the seventies from 2.3 per cent to just over one per cent. With a population of almost one billion it aims at zero growth by the year 2000. While the average number of children per couple has been 2.2 in recent years the Communist Party has called on all members to restrict their families to one child and it has sought to overcome solidly entrenched prejudices by saying that girl children are as desirable as boys as the State will provide social welfare and insurance as old age security for all citizens.

In attempting to reduce fertility among and especially those in the younger groups Sri Lanka has once again the model of Singapore. Recent studies have indicated that the potential for the reduction of fertility in Sri Lanka is high and that it should not be too difficult to "hold" the absolute number of births from rising higher.

The World Fertilily Survey showed that 56 per cent of the women in the age group 30–34 who already had two children did not want any more while 85 per cent of those who had four children wanted no more. While these percentages decline or increase with age the crucial group is those between 20 and 30. (14)

Slightly over 40 per cent of those in the age group 20–24 who had two children did not want any more which indicates that the demand for temporary and permanent methods of contraception should be high. There will have to be a massive effort on the part of Government and voluntary agencies to make facilities and services match the demand. Failure to do so will result within the next few years in an increase in the number of births to over 450,000 a year. The immediate task is to reduce the number of births by about 60,000 annually.

Almost all studies on Sri Lanka and even the authoritative and comprehensive E.S.C.A.P. monograph on Sri Lanka refer to the "youthful age-structure" of the population with its "built-in potential for further rapid rise (in population) in the future." In my earlier book which was written at a time when the birth rate in preceding years had registered a steady decline I commented on the fact that this had arrested the relatively young composition of Sri Lanka's population. Inferences drawn from statistics depend on the period covered. I referred to statistics in respect of 20 years from 1953 to 1973.

A Marga Institute study published after my earlier book was published which covers the seven decades from the 1901 Census to the 1971 Census shows that the proportionate shares of the population in the age groups 0 – 14 and 15 – 24 and even 25 – 49 actually declined in this 70 year period. In 1901 the 0 – 14 age group constituted 42.24 per cent of the population. In 1971 they consitituted only 39.32 per cent of the population. In 1901 the share of the 15 – 24 age group was 20.84 per cent. In 1971 this group amounted to 20.51 per cent. In the 25 – 49 age group the percentages dropped from 29.47 in 1901 to 27.73 in 1971. It was only in the over 50 age group that there was an increase from 7.45 per cent in 1901 to 12.43 in 1971 and this increase was due mainly to the fact that the expectation of life more than doubled in this period.

The study showed that "The popular assertion that the high rate of population growth in the last 25 years has produced a youthful population in Sri Lanka with an usually high proportion in the age group below 25 years is not borne out by the change in the age structure of the population over the last 25 years." (15) With the steady increase in life expectation there has in fact been a slight decline in the percentage share of the younger groups in the total population.

A major shortcoming in family planning programmes which has only begun to be rectified in Sri Lanka has been the undue emphasis on urban areas and allopathic practitioners when the majority of the population live in villages and consult ayurvedic doctors. In its earliest phases the family planning movement was Colombo Seven oriented and directed, and aroused suspicion, distrust, and animosity among the traditional medical practitioners in the country. It was the World Health Organisation which drew attention to the "complete lack of rapport between allopathic and ayurvedic physicians."

Winning the confidence and co-operation of ayurvedic doctors was a slow and difficult process but the efforts of the Family Planning Association were finally rewarded in July 1976 when the Family Health Bureau of the Ministry of Health and the Department of Ayurveda agreed to launch a programme of training for ayurvedic doctors with funds provided by the International Planned Parenthood Federation.

There are 10,125 registered ayurvedic doctors in the country and their potential as a powerful force for public education has been recognised and utilised in recent years. Mr. Dharmasena Attygalle who was appointed Deputy Minister of Health in the present Government is himself an ayurvedic doctor who has actively encouraged the dissemination of information about family planning and the availability of supporting services throughout the hitherto neglected rural areas.

Colombo wrote itself into the history of demography between August 28 and September 1, 1979, when it was the venue of the first International Conference of Parliamentarians held under United Nations auspices. The statement issued at the end of the Conference, or the Colombo Declaration as it has come to be known, affirmed that population and development are inextricably bound together and that development programmes have of necessity to be linked with population programmes.

The Conference noted that "not enough progress" had been made since the historic World Population Conference in Bucharest in 1974 and that there was an urgent and imperative need to make the relationship between population and development "meaningful in action programmes."

A noteworthy feature of the Colombo Declaration is that while future programmes and perspectives are generally aimed at limiting population in the decades preceding the year 2000 the Colombo Conference said future viewpoints could no longer be limited to the year 2000. "Unless effective action is taken now in the field of population and development, world population could continue to rise to 8,000 million or even 10,000 million people. A delay of just one generation in bringing world population to a stable level implies approximately 3,000 million additional persons" the Conference observed. The Conference was a singnificant landmark along the path of international co-operation in population control. (16)

Rev. Thomas Robert Thomas Malthus (1766 – 1834) who propounded the theory that population increases in geometric progression – 1 – 2 – – 4 – 8 and so on while productive resources increase only in arithmetic progression – 1 – 2 – 3 – 4 – belonged to a family of eight children and he himself had three. His prescription or quota for others was the "absolute minimum" number of children which remains very sound advice for Sri Lanka.

REFERENCES

1. Populi. Vol. 5. No. 2. 1978.

2. Recent changes in population growth rate in Sri Lanka. A.T.P.L. Abeykoon (Performance January to June 1980).

3. Marga. Vol. 1. No. 2. 1971.

4. Ceylon Daily News. April 9, 1980.

5. Ceylon Observer. April 21, 1980.

6. Review of Population and Planning Activities in Sri Lanka. Dr. Malcolm Potts. (Ministry of Plan Implementation 1978)

7. Sun. October 2, 1980.

8. Ceylon Observer. October 15, and 20, 1980.

9. Sunday Observer. October 26, 1980.

10. Depthnews Agency.

11. International Planned Parenthood Federation. Medical Bulletin. (Sri Lanka Scientific Congress issue).

12. Country Monograph Series. No. 2 Sri Lanka (Chapter 7) (E.S.C.A.P. Bangkok)

REFERENCES (Contd.)

13. Population Bulletin. U.S.A. Vol. 30. No. 2.

14. World Fertility Survey. Sri Lanka 1975.

15. Needs of children and Adolescents. A Case Study of Sri Lanka. (Marga Colombo 1975).

16. Colombo Declaration on Population and Development (U.N.F.P.A. 1979).

POSTSCRIPT

Power cuts, a credit squeeze, and uncertainty over aid from the International Monetary Fund, were the clouds on the economic horizon as this book went to press but as the final proofs were being corrected much of the darkness was dispelled and rays of light began to shine through the clouds.

Needless to say the 112 days and nights of power cuts which started with four hours daily, but were later extended to eight hours, delayed the publication of this book. The exact loss to the economy in monetary terms, and the psychological effect which the lack of a basic amenity had on potential investors will never be known. How many lives were lost as a result of power failures in homes, and private and government hospitals, will also never be known. A leading industrialist said his business suffered a loss of half a million rupees a month, and at the latter stages of the crisis 16 government industrial corporations suspended production. Sri Lanka has paid bitterly for the lack of foresight on the part of some electrical engineers who with the advent of hydro-power prevailed on the Government of the day to get local bodies, industrialists, and tea and rubber factories to dismantle their generators whether powered by oil or water.

Quantitaive restrictions placed on credit expansion on May 11, 1981 proved successful and within three weeks the Central Bank replaced them with other forms of credit restraint by limiting its accommodation to commercial banks at the rate of 12 percent. The "short, sharp, shock," was intended to regulate, and control, the expanding money supply and inflationary pressures in the economy. While the exercise was a "success" from the point of view of the Central Bank it served as a salutary reminder to the private sector that credit, like power, will continue to remain a problem and constraint.

The overall picture of the economy would have been much gloomier if not for the fact that the International Monetary Fund made available in mid June, 1981 Rs. 1,400 million from its Extended Fund Facility, and its Compensatory Financing Facility. The I.M.F.'s decision saved the country from a situation in which the entire development programme would have had to be curtailed. The private sector would have been unable to obtain machinery and raw materials, and the stringent import controls and exchange controls that prevailed under the last government would have had to be re-imposed. The Minister of Finance and Planning has once again stressed "how disgraceful and demeaning it is for our national self-respect" to go on begging from the I.M.F. the World Bank, and friendly countries, but Sri Lanka is so deeply enmeshed in the coils of the debt trap that there is no easy way out, or an escape from indebtedness in the forseeable future.

The North-South Summit of world leaders which was due to have been held in June 1981 has been postponed for later in the year as a condition for participation by President Reagan leaving room for both optimism and pessimism.

In what tragically proved to be her swansong, Barbara Ward, the Baroness Jackson, who was probably the best friend the Third World countries had, repeated her warning that "where there is no vision, the people perish." It is a sombre thought on which to end this survey.

25th June, 1981.

BIBLIOGRAPHY.

Amarasinha. Dr. A.R.B. Public Corporations in Ceylon. (Colombo 1971)
Balogh. Thomas. The Economics of Poverty. (London. 1966)
Bansil. Dr. P.C. Ceylon Agriculture. A Perspective. (New Delhi. 1971)
Bourne. Arthur. Pollute and be Damned. (London. 1971)
Chenery. H. et al. Redistribution with growth. (London. 1974)
Dwyer. D.J. The City as a Centre of Change in Asia. (Hongkong Univ. 1972)
E.S.C.A.P. Country Monograph Series. Sri Lanka.
Edirisinghe. Newton, and Poleman. Thomas, Implications of Government intervention in the Rice Economy of Ceylon. (Cornel Univ. 1976)
Fryer. Donald W. Emerging Southeast Asia. A Study in Growth and Stagnation. (London. 1970)
George. Susan. Feeding the Few. (U.S.A. 1977)
Haq. Dr. Mabub Ul. The Poverty Curtain. Choices for the Third World. (Columbia Univ. Press. 1976)
International Labour Organisation. Employment Resource Mobilization and Basic Needs through local level planning. (Bangkok. 1979.)
I.L.O. Labour Problems in the Economic and Social Development of Ceylon. (Geneva. 1971)
I.L.O. The Poor in Asian Development.
I.L.O. Poverty and the Landless in Rural Asia (1979)
Karunatilake. Dr. H.N.S. The Economic Development of Ceylon (New York. 1971)
Marga Institute. Needs of Children and Adoloscents. A Case Study of Sri Lanka (Colombo. 1975)
Marga Institute. The Informal Sector of Colombo City. (May. 1980)
Moore. M.P. and Wickremasinghe. G. Agriculture and Society in the Low-Country. (Sri Lanka) A.R.T.I. and Institute of Development Studies, Sussex. U.K. 1980.
Mouly. J. and Costa. E. Employment Policies in Developing Countries. (London. 1970)
Myrdal. Gunar. Asian Drama. An Inquiry into the Poverty of Nations. (New York. 1968)
National Science Council. Environmental Management in Sri Lanka. (Colombo 1976)
National Science Council and German Cultural Institute,. Man and his Environment.
Organisation for Economic Co-operation and Development. Agriculture in Ceylon until 1970.
O.E.C.D. Employment and Unemployment in Ceylon. (Paris. 1971)
Pyatt. Graham. Roe. Alan R. and associates. Social Accounting for Development Planning with special reference to Sri Lanka (Columbia Univ. Press)
Report of the Special Programming Mission. International Fund for Agricultural Development (Rome. 1979)
Robinson. M. (Ed) Moore. M.P. Lebbe. M.U. Ishak. The Disintegrating Village. Social Change in Sri Lanka (Lake House Investments. Colombo. 1979)

MAGAZINES, NEWSPAPERS, PERIODICALS. (FOREIGN)

Asiaweek.
Asian Wall Street Journal.

MAGAZINES, NEWSPAPERS, PERIODICALS. (FOREIGN) (Contd.)

Business Asia.
Business Week.
Depthnews (Manila)
Economic Impact (U.S.A.)
Economist (U.K.)
Economist. Special Report on Sri Lanka . No. 84.
Financial Times (U.K.)
Holland Herald.
Horizons, (U.S.A.)
International Development Review.
International Management.
International Social Sciences Journal (UNESCO)
New Civil Engineer (U.K.)
Populi.
Population Bulletin.
The Times. (U.K.)
Third World Quarterly.
Trade and Development (An U.N.C.T.A.D. Review)
U.N.C.T.A.D. Bulletin.
World Water (U.K.)

MAGAZINES, NEWSPAPERS, PERIODICALS. (Sri Lanka)

Ceylon Daily News.
Ceylon Daily Mirror.
Ceylon Observer.
Karmantha (I.D.B.)
Lanka Guardian.
The Nation.
Sunday Observer.
Sunday Times.
Sun.
Social Science Review.
Sri Lanka Journal of Social Sciences.
Tribune.
Weekend.

OFFICIAL PUBLICATIONS

Agricultural Research and Training Institute. Social Maximum and Social Minimum for Food Nutrition. K.C. Abercombie (Synopsis and Report series)
A.R.T.I. Sri Lanka and the International Food Crisis
Central Bank. Monthly Bulletins
Annual Reports

OFFICIAL PUBLICATIONS (Contd.)

Review of the Economy (annual)
Staff Studies (occasional)

Convocation Address. H.E. J.R. Jayewardene May. 1978 (Dept. of Govt. Printing)
Current Awareness Service. International Economic Co-operation Division of Ministry of Finance and Planning.
Exponews. Dept. of Commerce.
Greater Colombo Economic Commission. Sri Lanka Investment News.
Hansard.
Industrial Development Board. Techno – Economic Survey of Industrial Production In Ceylon. Dr. Neil Bandaranaike.
Ministry of Industries and Scientific Affairs. Six Years of Industrial Progress. 1970–76.
Ministry of Plan Implementation. Performance (issued quarterly, bi-annually, and annually)
Ministry of Plan Implementation. Special Reports (1) Migration of Sri Lankans to the Middle East. L.K. Ruhunage.
(2) Secretaries, English Stenographers, and English Typists, Rupa Monerawela.
(3) Subsidiary Food Crops. Dr. Merveyn de Silva.
Ministry of State. Tourism in Sri Lanka. The First Decade. 1978
People's Bank. Economic Review. (Monthly)
Sessional Papers.

Miscellaneous

Centre for Society and Religion. Poverty and Income Distribution. Dossier No. 72.
Ibid. The City of Colombo. Charles Abeysekera.
Colombo Declaration on Population and Development (UNFPA 1979)
Food and Agriculture Organisation. Commodity Review. 1979-80.
International Planned Parenthood Federation. Medical Bulletin.
Modern Ceylon Studies (University of Peradeniya)
Nutrition and National Development. Presidential address. First annual session of the Nutrition Society. 1976. Colombo. Mimeographed)
Papers by Visiting Economists. (Dept. of Govt. Printing)
Rethinking Development. (World University Service. Univ. of Colombo.)
Sri Lanka Tree Crop Rehabilitation Report (Tea) (I.D.A. 1978)
Special Features attendant to the Management of Corporations. R.N. Hapugalle Colombo 1978. (Mimeographed)
Sri Lanka Foundation Institute. Environmental Protection and Management.