PUBLIC INVESTMENT

1981 — 1985

MINISTRY OF FINANCE AND PLANNING
NATIONAL PLANNING DIVISION
COLOMBO, SRI LANKA
May 1981

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PART I

REVIEW AND TRENDS

PART 1

REVIEW AND TRENDS

1. The Economic Setting

1.01 The Government has completed nearly four years in office. During this period there has been a massive and progressive liberalization of the economy. At the same time the Government has made an unprecedented effort to implement a public investment programme designed to restore vitality to the economy and to provide the social and economic infrastructure required to place the economy on a firm path of self-sustained growth.

1.02 The policy reforms, since 1977, were designed to move economic management away from intervention and controls to guiding the economy towards the desired objectives. In support of this policy, the exchange rate was unified and allowed to float, most imports and payments were liberalized, price controls were dismantled and the tax structure was simplified, with appropriate incentives for investment in high priority areas. Food and other subsidies, which were widespread and had been in operation for nearly three decades, were rationalized by removing them from the more affluent classes and targetting them towards the poor, while restoring market incentives. These and other policy reforms are an on-going process. The Government follows a pragmatic approach and adjusts the policies as appropriate to meet emerging situations.

1.03 The adjustment process has not been an easy one for Sri Lanka. The Government has made a determined effort to move towards international prices for major commodities. This has proved to be a moving target because international prices have kept on rising. Government was aware of the uncertainties inherent in the international economic and financial climate. Hence the decision was taken to move away from a rigid five year Public Investment Programme. Instead, it was decided to have a series of five year projections in a rolling plan framework initiated with the 1979-83 period.

1.04 The initial response of the economy to these initiatives was decisive and significant as evident from the growth rate of the Gross Domestic Product (GDP) averaging 7.3 per cent in real terms during the two year period 1978-79 and the reduction of unemployment. Perhaps a more significant development was the re-emergence of the market mechanism after nearly two decades. Shortages and queues which prevailed for a long time have disappeared. Competition from imports had the effect of raising product quality of domestic industry and offering consumers greater choice in certain product ranges. Local entrepreneurs have been provided the opportunity after nearly two decades, to import raw materials in relation to actual requirements and at the appropriate time, instead of working through a maze of controls. Commercial advertising too began to flourish once again, indicating the re-emergence of competitive forces.

1.05 This restructuring of the economy has offered the private sector a vastly expanded scope of activities in the country's development effort and the foundation for further development through massive public sector investment in essential infrastructure. Favourable trends have been observed in the case of several public sector industrial and commercial enterprises too, as evident from shifts towards market orientation, concern for economic and commercial viability of new projects and greater autonomy and self reliance in general.

1.06 In 1978 and 1979 the economy was adjusting itself to the new freedom which it was savouring after some two decades of controls. The response was magnificient. The public sector moved from a paucity of worthwhile projects to an excess and implementation capacity expanded beyond expectations. Economic activity in the private sector picked up rather slowly at first, but gathered momentum later. This increasing momentum of investment and economic activity was a very welcome development. However, by 1980, the external economic environment began to deteriorate, as evidenced, for instance, by a 19 per cent deterioration in the terms of trade. The Government was faced with a dilemma. Immediate steps could have been taken to curtail the investment effort. But that would have dampened the enthusiasm of both the private and public sector. It would also have reduced the rate of employment growth which, after all, was the *quid pro quo* for the sacrifices by way of adjustment to international prices and removal of subsidies which the public was being asked to bear. In this situation, the adjustment had necessarily to be slow. Meanwhile, investment grew to an unprecedented 36 per cent of GDP on top of an extremely unfriendly external economic environment. Consequently, there was a very large deficit in the budget, a large overall deficit in the balance of payments and a high rate of domestic inflation.

1.07 In 1980, while investment reached a level of 36 per cent of GDP, domestic savings remained more or less at the previous year's level of 13.5 per cent. The concessional aid flows were inadequate to meet the resulting gaps in the government budget and the balance of payments. The overall fiscal deficit was 21 per cent of GDP and substantial recourse to bank borrowing, amounting to 10 per cent of GDP became necessary. The current account deficit in the balance of payments was 16 per cent of GDP and resulted in a sharp decline in reserves. Domestic prices rose by around 30 per cent.

1.08 The Government made attempts to adjust to the emerging situation throughout the year. The prices of essential commodities such as rice, flour, bread, sugar, petroleum products including kerosene, milk foods etc. were increased. But as indicated earlier, the adjustment towards international prices has become for Sri Lanka a case of shooting at a moving target.

1.09 The first step towards a re-examination of the public investment programme was taken in 1980. The scope of the two major lead projects namely, the Accelerated Mahaweli Development and the Housing and Urban Development Programmes was scaled down. The Mahaweli Programme was to be confined to the headworks of Victoria, Kotmale and Maduru Oya dams together with reduced downstream development. In the Housing and Urban Development Programme there was a shift towards aided self-help and a postponement of nearly half the urban housing programme. Likewise, the investment in the new Capital of Sri Jayewardenepura was limited only to the Parliamentary Complex and two administrative buildings. In the case of other investments emphasis was shifted towards projects with quick and high returns and high net savings in foreign exchange.

1.10 These policy measures and the attempts at scaling down public investment proved to be inadequate as the performance of the economy in 1980 has shown. Consequently, a further attempt at containing public investment within available financial resources was made in November 1980 at the time of presentation of the Budget for 1981. Government imposed an across the board reduction of 25 per cent in the capital budgets of most Ministries, which were asked to re-order their priorities in order to confine capital expenditure within these limits. These reductions, however were of an *ad hoc* nature and had to be reviewed subsequently.

1.11 This review was done in March 1981 and the new capital expenditure by Government envisaged for 1981 is an investment of Rs. 12,041 million. Public investment 1981-85 is a greatly reduced programme, with its share in GDP declining from 16.6 per cent in 1981 to 11.7 per cent in 1985. The lead projects still retain a prominent position and have assumed greater urgency. The completion of the Victoria, Kotmale and Randenigala dams on schedule is of crucial importance in view of the critical shortages of power which are already beginning to appear. Likewise, the persistent shortage of housing has underlined the urgent necessity of completing the on-going housing programme which again is a greatly curtailed one.

1.12 In the rest of the investment programme, emphasis has fallen upon projects in the directly productive sectors such as the rehabilitation of the Tree Crops, Tea, Rubber and Coconut, the Village Tank Rehabilitation Project, and projects on fisheries and forestry. Some investments in economic infrastructure, notably highways and telecommunications, have also become essential in view of the growing demand for such facilities, especially by the private sector. In industry, the main focus is on the promotional role that Government could play in increasing the volume of industrial exports in order to counter a deteriorating balance of payments position. Export-led growth has been and still is one of the key elements in the country's development strategy.

1.13 Further adjustments in administered prices were also made in early 1981. The prices of domestic and imported rice were raised by 23 per cent and 24 per cent respectively and the prices of wheat flour and sugar by 5 per cent and 20 per cent respectively. In addition, the prices of fertilizer, petroleum products and fares charged for public transport were increased. These increases in administered prices raised the index of prices of essential commodities in the first quarter of 1981, by 42 per cent (annual rate) while the balance of the index increased by 28 per cent. The approach to administered prices is that they must at least cover costs.

1.14 The Government also took several decisions in March 1981 in order to restore balance in the economy. No new supplementary estimates which would increase the investment programme of Rs. 12,041m. for 1981 are to be allowed except where they become necessary to allow for effects of exchange rate changes on the local currency equivalent of foreign aid. Ministries have also been directed to stop purchases, for their own use, of equipment and machinery, vehicles and electrical appliances and to halt new construction or extension of buildings, except with the approval of a high-level committee.

1.15 As a result of all these measures and changes, the overall deficit in the Government's 1981 budget is expected to be 14.5 per cent of GDP as against 21 per cent in 1980. The deficit to be financed from the banking system is expected to be 4 per cent of GDP, in contrast to 10 per cent in 1980. The Government also expects that, while the terms of trade are likely to deteriorate further in 1981, through appropriate trade and exchange rate policies, it would be possible to contain the current account deficit in the balance of payments at 12 per cent of GDP, compared with 16 per cent in 1980.

1.16 The medium-term public investment programme 1981-85 as presented in this document is a tentative projection. As in past programmes, the projection for the first year 1981, has been fully integrated with the Government's capital budget. The practice followed in the past of preparing a rolling five year projection each year will be continued. The 1982 projection is already under review in preparation for the 1982 budget.

1.17 The present projections and the likely continuance of an unfavourable external climate, point to the desirability of lower levels of investment and shifting away from capital intensive and import intensive projects to investments in the directly productive sectors. This is, however, easier said than done when most projects have already commenced and the "on-going" content of the investment programme is very high. Over 90 per cent of projects included in the programme have some concessionary aid attached to them. They have been worked out in co-operation with bi-lateral and multi-lateral donors and re-phasing or abandoning such projects becomes a delicate issue. This is, however, not an argument for less aid in the future but for more appropriate aid about which more will be said in a later section.

1.18 The investment programme now contains four dams under the Accelerated Mahaweli Development Programme. Construction of the Victoria, Kotmale and Randenigala dams has become urgent in order to meet the demand for power in the eighties. The thermal option is too expensive and the country cannot afford it, although some 120 MW of thermal capacity will be required to meet the demand pending the completion of the hydro projects.

1.19 Nonetheless, each year an attempt will be made to fit the year's investment programme to available budgetary resources. While further pruning down of capital expenditure may be possible, the scope is bound to be limited. Hence the emphasis has to be on additional domestic and foreign resource mobilization, without recourse to an untenable level of foreign borrowing while maintaining domestic bank borrowing at sustainable levels. At the same time, the balance of payments deficit and the domestic price level have to be contained. These are difficult imperatives but the Government's record shows its determination to restore and maintain external and internal balance.

1.20 The projections for 1981-85 already indicate additional domestic resource mobilization of Rs. 1,500 million in 1982 rising to Rs. 3,000 million in 1985. Already studies are being done with a view to achieving these targets, ambitious though they may look. As a first step, public corporations which wish to engage in new investments out of their own resources are being required to pay to the Treasury a return on Government's equity in them. Current and capital transfers to commercial public corporations are being minimized and a re-organisation of the Transport Board is under way. The substantial increases in prices of officially distributed goods, mentioned earlier, is part of this strategy. The need to make revenue more income elastic is recognized but the flow of revenue from any such attempt will necessarily take time. In the immediate future, additional revenues will have to come from indirect taxes. There is scope for adjusting the rates, for widening the tax base, for more effective enforcement and rationalization. These possibilities are even now being reviewed.

2. Economic Performance 1978-1980

2.01 The response of the economy to the policy reforms initiated in 1977 continued throughout the three year period 1978-80, with the rate of GDP growth averaging 6.8 per cent per annum in real terms. This rate of growth was not only twice as high as that attained by the Sri Lankan economy during the 1970-77 period, but also higher than the annual average growth rates achieved by industrialized countries (3.2 per cent), middle income countries (5.7 per cent), capital surplus oil exporters(1) (6.0 per cent) and centrally planned economies (5.6 per cent) over the period 1970-78. Even in the years 1978 and 1979 Sri Lanka's GDP growth averaging 7.3 per cent per annum exceeded those of developed market economies (3.5 per cent) developing countries (4.7 per cent) and centrally planned economies (4.2 per cent)(2) However, there were signs of a process of stabilization taking place after the high GDP growth rate of 8.2 per cent achieved in 1978; the growth rate slowed down to 6.3 per cent in 1979 and to 5.8 per cent in 1980.

2.02 The contributions to the total increase of GDP achieved during the period 1978-80 as a whole were widely dispersed amongst all major sectors of the economy. The largest share (59.7 per cent) came from the services, particularly from trade and transport in response to pent-up demand and reflected a restoration of run-down infrastructure services and utilities as well as a significant growth in the tourist sector. Other major contributions to total growth came from agriculture (13.4 per cent), construction (12.8 per cent), and manufacturing (9.3 per cent).

TABLE 2.1

INCREASE IN THE GROSS DOMESTIC PRODUCT 1978-80*

(Rs. Million at 1970 Constant Factor Cost Prices)

Sector	1977	1980	*Change in GDP* 1978-80* *Sectoral Contribution*	*Percentage share of Increase in GDP* 1978-80	*Average Growth Rate* 1978-80 (%)
1. Agriculture	4,299	4,766	467	13.4	3.5
2. Mining & Quarrying ..	515	684	169	4.8	9.9
3. Manufacturing	2,357	2,681	324	9.3	4.4
4. Construction	619	1,066	447	12.8	19.9
5. Services	8,288	10,378	2,090	59.7	7.8
Total: ..	16,078	19,575	3,497	100.0	6.8

Source: Central Bank of Ceylon, Annual Reports 1979 and 1980
*Increases in GDP during 1978, 1979, and 1980 ie GDP 1980—GDP 1977.

(1) *Source:* World Bank, World Development Report, 1980

(2) *Source:* United Nations, World Economic Survey 1979-80. Inter-country data available up to 1979 only.

Note: Classifications under (1) and (2) are not strictly comparable.

2.03 In the agriculture sector as a whole, value added (at constant 1970 prices) increased by 3.5 per cent per annum over the period 1978-80. However, the rate of growth showed a decline from 5.4 per cent in 1978 to 2.0 per cent in 1979 but recovered to 3.1 per cent in 1980. The recovery in 1980 was mainly due to a 7.5 per cent growth in domestic (non tree crop) agriculture. The somewhat disappointing performance in plantation agriculture was primarily due to adverse weather conditions. Tea production which had recovered from 199 million kg. in 1978 to 206 million in 1979 declined to 191 million kg. in 1980. This drop was principally due to the drought experienced in the early part of 1980. The output of rubber showed a marginal decline from 156 million kg. in 1978 to 153 millon kg. in 1979 but a sharp drop to 133 million kg. in 1980. Apart from adverse weather conditions, this decline was also due to increasing senility in rubber trees and large extents of land being taken up for replanting; the acreage replanted increased by 29 per cent in 1979 and by a further 30 per cent in 1980. Coconut production recovered from 2207 million nuts in 1978 to 2393 million nuts in 1979 but declined to 2026 million nuts in 1980.

2.04 In contrast, paddy output showed a steady increase, rising from 91 million bushels in 1978 to 92 million in 1979 and to 102 million bushels in 1980. The significant increase in 1980 is mainly attributable to the increase in the yield per acre i.e. 56 bushels per acre as compared with 53 bushels per acre in 1979, resulting from improved extension services, better fertilizer application and cultural practices together with an increase in the cropping acreage coming under assured irrigation. Further, the better open market prices for paddy acted as a major incentive to farmers for higher production.

2.05 Some of the minor export crops namely, coffee, cinnamon, cloves, cardamom, unmanufactured tobacco, citronella oil and cashew nuts showed increases in production during 1979 in relation to levels in 1978 but other crops such as arecanut, nutmeg, pepper, mustard seed, cocoa, sesame seeds and betel leaves experienced a decline during 1979. In 1980, significant increases were reported in respect of arecanut, cloves and cinnamon; the production of oil seeds, cocoa products, mustard and cashew nuts also recorded increases over the 1979 levels. But exports of coffee, pepper, nutmeg, cardamom, tobacco and betel leaves are reported to have declined.

2.06 The poor performances of the agricultural sector, with the exception of paddy and in 1980 subsidiary food crops, has no doubt brought into focus the urgent necessity to re-vitalise agricultural production. This sector still retains the highest potential for not only expansion of output, employment and exports but also for the generation of surpluses to support investments elsewhere in the economy. A number of policy measures have, therefore, been adopted to restore vitality to agriculture. These include the upward revision of the floor price for paddy from Rs. 40 per bushel to Rs. 52.50 per bushel, the introduction of floor prices for 12 subsidiary food crop varieties, a downward revision of export duty on bulk tea from Rs. 13.50 per kilogram to Rs. 10.50 per kilogram, the introduction of a new variety of pest resistant rice, and the intensification of research directed at improving yields and resistance to pests in selected crops such as cowpea, greengram, and kurakkan. However, in the medium and longer term, a major leap forward in agriculture is expected to come from the Accelerated Mahaweli Development Programme, other irrigation schemes and the programmes for rehabilitation of the tree crops.

2.07 The output of the manufacturing sector increased at an average rate of 4.4 per cent per annum over the period 1978-80. However, the rate of growth has declined sharply from the initial response of 7.8 per cent during 1978 to 4.6 per cent in 1979 and to 0.8 per cent by 1980. The drop in the growth rate in 1980 is largely attributable to the downturn in tea, rubber and coconut processing which together account for about one third of total value added in manufacturing industry and also to the decline in output in some of the state industrial corporations. These losses were compensated by an upsurge of activity in the rest of manufacturing industry. Small scale industry which recorded a growth rate of 10.4 per cent in 1978 continued to grow at 7.7 per cent in 1979 and at 10.1 per cent in 1980. This segment of industry received a great impetus from the World Bank assisted Small and Medium Industry Project. Commitments from the US $ 12 million credit component (from a total of US $ 16 million) for small and medium industries exceeded targets and a second IDA credit of US $ 30 million is being negotiated.

2.08 The most important development in the field of foreign investment during the period 1978-80 was the establishment of the Greater Colombo Economic Commission (GCEC). The aim was to attract export oriented firms, both local and foreign into Investment Promotion Zones (IPZs) and thereby promote the acquisition of better technology and managerial skills, greater access to foreign markets and enhance the country's foreign exchange earnings. The incentives offered include a tax holiday up to a maximum of 10 years and duty free imports of all inputs and machinery and a number of other concessions.

2.09 By the end of 1980, 137 projects had been approved at the Katunayake IPZ; subsequent withdrawals or cancellations amounted to 22. A total of 14 factories were in production by the end of 1979 and the number in commercial production increased to 23 by December 1980. Total exports by the GCEC firms during 1980 amounted to Rs. 505 million. Although the approvals during the early stages were dominated by garment manufacturing industries, the latter stage approvals showed a considerable diversification into areas such as electrical components, electronic semi-conductors, rubber thread, canvas shoes, pumps and carbon film resistors.

2.10 Private foreign investment was encouraged outside the GCEC area too, particularly in fields oriented towards exports or where significant technology gaps exist locally. These investments, in areas such as industry, fisheries, tourist hotels and civil engineering construction come within the purview of the Foreign Investments Advisory Committee (FIAC). The number of projects approved by the FIAC rose steadily from 33 in 1978 to 113 in 1979 and to 137 in 1980. A survey of projects approved in 1979 revealed that 29 had commenced production and 56 were in various stages of project implementation.

2.11 These developments have no doubt brought about a significant transformation in the composition of Sri Lanka's exports. The share of tea in total exports declined from 48 per cent in 1978 to 38 percent in 1979 and to 36 per cent in 1980. During the same period the share of rubber increased from 15 per cent to 16 per cent but dropped to 15 per cent in 1980 while that of coconut increased from 10 per cent to 11 per cent in 1979 and dropped back to 7 per cent in 1980. The share of minor agricultural commodities remained static at around 6 per cent during the years 1978 and 1979 but dropped to 5 per cent in 1980. Thus,in overall terms the share of primary commodities dropped from 79 per cent in 1978 to 71 per cent in 1979 and to 63 per cent in 1980. Meanwhile, the share of industrial exports (including petroleum products) rose steeply from 15 per cent in 1978 to 24 per cent in 1979 and to 32 per cent in 1980. This increase was primarily due to (a) significant increases in the export of textiles and garments from SDR 25 million in 1978 to SDR 55 million in 1979 and to SDR 84 million in 1980, (b) exports of petroleum products which increased from SDR 48 million in 1978 to SDR 96 million in 1979 and to SDR 139 million in 1980.

2.12 High levels of activity were witnessed in the areas of hotel construction, office complexes, property development, new industrial and trading ventures and private housing construction. Whilst there appears to be a need to slow down construction intensive activity and shift resources to the more directly productive ventures, the entire process must necessarily be a gradual one, in order to avoid a possible slump in the construction materials industry as well as in total employment in construction and construction related sectors.

2.13 The services sector recorded a steady level of progress throughout the period under review, with growth rates varying from 7.6 per cent in 1978 to 7.8 per cent in 1979 and 8.0 per cent in 1980. The contribution to the growth in this sector came mainly from an expansion of commercial services as well as transport and communications and reflected the response of the economy towards the liberalized policies adopted by Government. A noteworthy feature in the field of transport was the re-emergence of private sector passenger transport to augment public sector services after a lapse of nearly 25 years. By the end of 1980, the number of private coaches available for public transport was estimated at around 3,000 as compared with the State owned fleet of nearly 7,000 buses. A steady growth was also witnessed in the field of telecommunication traffic and reflected the general increase in commercial activity.

2.14 On the fiscal front, the Government has consistently followed a policy of diverting resources to investment. With this objective, a number of far reaching changes in the tax structure were made with a view to creating incentives to save and invest. These included tax holidays to specified companies, relief to export oriented businesses and concessions for promoting research. All non-essential consumer subsidies were reduced to keep the growth of government recurrent expenditure under control. However, the period 1978-1980 saw a decline in Government's current receipts relative to GDP. Notwithstanding this, the Government was able to finance a public investment programme whose size increased sharply during the same period, by mobilising a considerable amount of foreign assistance and by borrowing from domestic non-bank sources. The year 1980 however, proved to be a difficult year with cost escalations and increases in capital expenditure,forcing the Government to resort to short term borrowing to finance the increased deficit. In 1981, Government has taken specific and meaningful steps to enforce strict budgetary control and avoid the recurrence of such a situation.

2.15 On the external front, a substantial increase in imports occurred during the three years after liberalization of trade and payments. During the same period, exports increased at a much slower rate so that the trade deficit widened significantly from SDR 144 million in 1978 to SDR 750 million in 1980. However, the increases in imports of investment goods and intermediate goods accounted for about 70 per cent of the total increase in imports indicating that the policy helped to promote economic activity in general. On the services account, both receipts and payments recorded large increases from 1978 onwards, as activities in tourism, finance, foreign investment and trade progressed steadily throughout the period. Thus, the deficit on the current account in the balance of payments widened from SDR 121 million in 1978 to SDR 613 million in 1980. This deficit was financed to a very considerable extent by flows of foreign aid and other non-monetary capital which increased from a level of SDR 79 million in 1978 to SDR 412 million in 1980.

2.16 During the three year period 1978-80, money supply, defined as the sum of currency and demand deposits held by the public (narrow money) increased by 75.7 per cent or at a compound rate of 20.7 per cent per annum. During 1978, the increase of money supply was contained at Rs. 570 million or 11 per cent over the December 1977 level of Rs. 5,366 million. The principal factors responsible for the increase in money supply were (*a*) external banking assets (net) which rose by Rs.1,523 million and (*b*) private sector operations which were expansionary to the extent of Rs. 688 million. Government operations were contractionary to the extent of Rs. 1520 million. But this initial success in containing the rate of expansion of money supply was not maintained in 1979 when it increased by as much as Rs. 1,733 million or 29 per cent. Two principal factors were responsible for this increase, namely, a rise in external banking assets (net) which accounted for 71.3 per cent of the increase and Government borrowing from the banking system which accounted for 27.5 per cent of the increase. During 1980, money supply rose by Rs. 1,759 million or 23 per cent. The principal factors behind this increase were both an increase in net credit to

Government and in gross credit to the private sector;however a contractionary impact was brought about by a sharp decline in external banking assets (net) of Rs. 4,096 million and a positive movement in net other liabilities.

2.17 The general price level showed a steadily increasing trend throughout the period 1978-80. Despite the unification of the exchange rate, removal of price controls and rationalisation of food subsidies, all of which would have exerted an upward pressure on prices, the increase in the general price level was contained at 15 per cent during 1978. In 1979, the general price level increased by 20 per cent largely due to the price increase in fuel and power. The Government sought to cushion the impact of price changes upon the poorer sections of the community through the continuation of food rations for the poorer half of the population until September 1979 and thereafter by the introduction of the food stamp scheme and other social welfare programmes. The process of adjustment to world prices continued in 1980, taking the form of changes in administered prices of certain essential commodities namely, rice, flour, bread, sugar, kerosene, milk foods and bus fares. It is estimated that the general price level has increased by about 30 per cent during 1980. The annual average of the Colombo Consumers' Price Index is reported to have increased by 26 per cent during 1980; 66 per cent of this increase is considered to be attributable to changes in administered prices. However, this inflationary situation brought into focus the urgency of implementing measures to reverse this trend, principally, through increased production of wage goods, energy conservation measures and a reduction in expansionary financing of the budget.

3. The Medium Term Perspective 1981-1985

(*a*) *Overall Objectives and Targets*

3.01 The public investment programme now presented is the third in the series of the rolling plan framework initiated with the programme for 1979-83. The broad objectives remain unchanged, namely accelerating economic growth and employment creation while safeguarding the living standards of the poor.

3.02 However, the high rates of economic growth and employment creation achieved during the years 1978 and 1979 are clearly not feasible over the medium term due to several adverse conditions which have emerged recently. Apart from a deteriorating balance of payments situation, a low level of international reserves, and high rates of domestic inflation, the external economic environment has turned unfavourable. Arising from a low growth scenario in the industrialised countries, the avenues for expansion of our exports to these countries tend to be limited. Setbacks on a possible expansion of exports have come at a time when there is a great need to increase exports, so as to reduce the impact of petroleum imports which now absorb over 50 per cent of the country's export earnings. Further, the capacity to absorb new investments particularly in the public sector appear to be limited due to constraints on materials and manpower. Thus, in the medium term attention will be focussed on:

- attempting to arrest a worsening balance of payments situation;
- bringing down the high rates of domestic inflation;
- improving as far as possible the composition of public investment and reducing its share over time; and
- seeking solutions to manpower and materials constraints which have begun to appear.

3.03 In order to keep the current account deficit on the balance of payments within manageable proportions, it is estimated that the volume of exports would have to grow at a minimum rate of 4 per cent per annum over the period 1981-1985. This implies a major effort to strengthen traditional exports over the medium and long term while increasing and diversifying products and markets in the case of non-traditional exports. Also, in view of anticipated increases in the domestic production of rice, fertilizer, and in local flour milling, the projections assume that the growth in the volume of imports could be contained at around 1.8 per cent per annum over the period 1981-85.

3.04 As mentioned at the outset, the Government has already taken several measures in adjusting to world prices, through increases in the price of essential commodities. Since a major part of the adjustment process has been already accomplished and in view of anticipated increases in domestic production, elaborated below, the price index of consumer expenditure is expected to increase by 22 per cent in 1981 (as compared with 30 per cent in 1980) and by 10 per cent per annum thereafter.

3.05 The public investment programme which focusses attention on re-building the run down infrastructure and promoting economic growth must necessarily be viewed as complementary investment to support private investment in the future, For, the major projects under way are in the fields of power generation and transmission, irrigation, telecommunications and highway development. The public investment programme is admittedly large in terms of implementation capacity and steps have been taken to reduce its size over time, i.e. from a level of 16.6 per cent of GDP in 1981 to 11.7 per cent in 1985. Its relative share in total investment too is expected to decline from 57.3 per cent in 1981 to 43.2 per cent in 1985.

3.06 The magnitude and the composition of the public investment programme are of such dimensions that it has generated the demand for managerial, technical and professional personnel and a wide range of materials in excess of what the country can supply in the short-term. A number of steps have been already taken to provide skilled personnel with special incentives and allowances. Plans are under way to expand upon these initiatives. Further steps have been taken to implement several manpower training programmes over the medium-term through specialised agencies of the Government. In regard to materials significant increases are expected over the medium-term through the expansion of cement output and other building materials.

3.07 Over the medium term 1981-85, the economy is projected to grow at an average annual rate of 5.7 per cent in real terms; major contributions are expected from domestic agriculture, industry, construction and services. The section below elaborates the prospects for increases in production.

(*b*) *Domestic Production and Resource Availability*

3.08 The projection of GDP by industrial origin is shown in Table 3.1. The momentum achieved in the construction sector in the past two years would make it the fastest growing sector, even though its growth is now likely to stabilise at 12.0 per cent per annum during the next five years. The activities of quarrying for building materials would closely follow the fast growth in construction. Thus, the mining and quarrying sector could achieve a growth rate of about 9.2 per cent per annum.

3.09 The value added in the agricultural sector accounts for nearly 26 per cent of the domestic product; even though its planned growth rate is a relatively modest 4.4 per cent, the resultant contribution to the total increase in the domestic product during 1981-1985 period would be about 19 per cent. During the next 5 year period, the growth in this sector is expected to arise mainly from domestic agriculture including, paddy, subsidiary food crops, minor export crops, animal husbandry and fisheries.

TABLE 3.1

GROSS DOMESTIC PRODUCT BY INDUSTRIAL ORIGIN

1980, 1981 and 1985

	Rs Million at Constant (1979) Prices			*Average Annual Compound Growth* 1980-1985 *at Constant Prices*
	1980 *Estimated*	1981 *Projected*	1985	
1. Tea Growing	1070	1160	1176	1.9
2. Rubber Growing	747	758	770	0.6
3. Coconut Growing	1689	1911	2050	4.0
4. Paddy (incl. of processing) ..	2938	3058	3750	5.0
5. Other Agriculture	7182	7505	9166	5.0
6. Total Agriculture	13626	14392	16912	4.4
7. Mining and Quarrying	1136	1272	1761	9.2
8. Tea, rubber, coconut processing ..	3323	3655	3775	2.6
9. Other Industries	6145	6575	9140	8.3
10. Construction	3572	4001	6295	12.0
11. Services	24768	25966	31562	5.0
12. Gross Domestic Product at constant factor cost prices	52570	55861	69445	5.7

3.10 Paddy output is expected to increase from 102 million bushels in 1980 to 130 million bushels in 1985. With the extension of the asweddumised acreage under Mahaweli and other major irrigation schemes and the extension of the cropping acreage due to improvement of irrigation facilities under the minor tank rehabilitation programme, this target is well within realisation. The upward adjustment of the floor price for paddy, adjustment of the administered price of wheat flour, improvement in extension services and agricultural credit, and the gradual removal of the supply bottlenecks affecting fertilizer distribution, will more than compensate for the reduction of fertilizer subsidies and given normal weather conditions self-sufficiency in rice could be reached in 1985.

3.11 In the case of tea and rubber no significant increase in output is expected. This is partly due to poor maintenance and slow replanting in the past and partly due to the short term effect of an accelerated replanting programme now being undertaken. Even to maintain the very modest growth rates shown in Table 3.1, a concerted effort, involving higher fertilizer application, intensive rehabilitation and adoption of more effective cultural practices would be necessary. The present level of production of coconuts is somewhat below the maximum potential, partly on account of several short term factors such as adverse weather conditions and lack of regular fertilizer application. Starting from the low base of 1980, the 4.0 per cent average growth of output anticipated in this crop is considered feasible in view of the policies now being implemented with respect to fertilizer promotion, credit, and tube well irrigation of coconut lands in selected areas.

3.12 On account of the inability of the tree-crop sectors to contribute significantly to the growth in agriculture in the medium term, the achievement of the overall growth target in agriculture necessarily depends on the performance of "other agriculture". The production prospects in this area are conditioned by policies relating to remunerative prices, availability of inputs and credit. For all these products there exists a great deal of unsatisfied demand and there are no technological constraints in the expansion of their production. Therefore, government policies would place increased emphasis on securing maximum output in this sector.

3.13 Although the output in the agricultural sector is primarily determined by production possibilities, considerations of demand arising from increased incomes during the period have been taken into account in determining the targets. The order of output increase envisaged in the present projections will substantially meet the domestic demands for agricultural products. Where necessary and unavoidable, as in the case of cereals and sugar, adequate imports have been provided for, in order to sustain per capita levels of consumption. The annual per capita consumption of rice and flour during the five year period has been kept at 127 kg. equivalent to past levels of consumption.

3.14 Industrial output other than processing of tea, rubber and coconuts during the medium term is projected to grow at an annual rate of 8.3 per cent at constant prices. Of these, the factory industries are likely to grow at a higher rate in comparison with cottage and small scale industries, in the present environment of liberalised economic policy. The main contributions to this growth will come from the industries in the public sector and those in the IPZ. However, the small industries will continue to receive official support where appropriate so that the incomes and employment in such industries will increase at an adequate rate.

3.15 Activities in the service sector are closely related to the growth in commodity producing sectors. The demand for power, transportation, communications and storage are to some extent influenced by the anticipated increases in agricultural and industrial output. A rapid expansion in the capacity of road transport service was witnessed during the last three years which represented a process of rehabilitation of a depleted capital stock. Taking into account the slightly lower rates of overall growth of the economy in 1981-1985 compared with the past two years, the services output is now projected to grow at 5.0 per cent per annum.

3.16 The increases in value added in the various sectors of the economy add up to an annual growth rate of 5.7 per cent for GDP at constant factor cost prices. In terms of the potentialities in the economy, and given favourable weather conditions it may even be possible to exceed this target.

3.17 On translating these targets to current prices, it is estimated that GDP at current factor cost prices would increases from Rs. 81.6 billion in 1981 to Rs. 147.4 billion in 1985, amounting to a compound rate of growth of 15.9 per cent per annum, Table 3.2 below shows the domestic resource availability in the economy, in terms of GDP at current market prices.

TABLE 3.2

DOMESTIC RESOURCES

(Rs. Billion at Current Prices)

	1980 *Estimate*	1981 *Projected*	1985 *Projected*	*Average Annual Compound Growth* 1980-85
1. GDP at current factor cost ..	62.3	81.6	147.4	18.8
2. *Add* indirect taxes less subsidies ..	6.0	6.2	13.1	16.9
3. *Equals* GDP at current market prices .	68.3	87.8	160.5	18.6

(*c*) *Domestic Savings and the Resource Gap*

3.18 Concerted efforts have been and are being made by Government to raise the level of domestic savings to meet the requirements of investment over the medium term. In the public sector, emphasis falls on generating a higher level of public savings by raising total revenue despite short-falls in the revenue earning tree crop sector and low direct taxes due to tax holidays offered to new ventures, curtailing current expenditure to minimum feasible levels, and generating surpluses in public corporations. Likewise, steps have been taken to increase the level of private savings through a number of measures such as increasing interest rates on savings deposits and the provision of attractive tax incentives for investment. Although the level of total domestic savings is expected to rise from about Rs. 9.7 billion in 1981 to Rs. 14.8 billion in 1985, the rapid escalation in project costs as well as the deteriorating balance of payments position, caused principally by rising costs of imports, will make such levels of savings inadequate to finance investment. Thus, in the short term substantial external assistance would be necessary not only to meet the investment-savings gap but also to cushion the effects of a deteriorating balance of payments position. Table 3.3 below,shows the extent of the resource gap which will have to be met in the short term while a more detailed discussion on the balance of payments would appear in Section 4.

TABLE 3.3

THE RESOURCE GAP

(Rs. Billion at Current Prices)

	1980	1981	1985
		Projected	
1. Export of Goods	17.4	22.5	36.7
2. Import of Goods	33.6	40.3	70.3
3. Non Factor Services (Net)	1.3	2.0	5.1
4. Net Import of Goods and Non Factor Services (The Resource Gap)	14.9	15.8	28.5

(*d*) *Total Resources and Utilization*

3.19 Total investment in the economy during the period 1981-85 is expected to reach a level of Rs. 169 billion as compared with Rs. 126 billion for the period 1980-84, the increase being almost entirely due to cost escalations. As a proportion of GDP at market prices, the total investment is expected to decline from a level of 36 per cent in 1981 to 27.0 per cent by 1985. The share of public investment in 1981 which is forecast at 57.3 per cent of total investment or 16.6 per cent of GDP at market prices is expected to decline gradually to a level of 43.2 per cent of total investment or 11.7 per cent of GDP at market prices by 1985. This reflects a concious attempt to shift a greater volume of economic activity to the private sector, over time.

3.20 The implicit incremental capital output ratio for the period 1981-1985 worked out in terms of 1979 prices is estimated at 4.7. This somewhat high figure partly reflects the long gestation character of major public sector projects, benefits from which are expected to flow substantially beyond the 1981-85 period. In terms of current prices, total investment is expected to grow at 12.1 per cent per annum while the growth of GDP at market prices is forecast at 18.6 per cent. The calculations assume a sharp price increase of about 21 per cent for GDP at market prices during 1981 and a 10 per cent increase thereafter from year to year. The price increase in investment expenditure is estimated at around 23 per cent during 1981 and at 10 per cent per annum thereafter. The underlying assumption in both cases is that during 1981 the economy would adjust to the rate of world inflation estimated at 10 per cent per annum. The projected levels of total resources, their utilization as well as the proposed financing of investment are set out in Table 3.4.

TABLE 3.4

TOTAL RESOURCES AND THEIR UTILIZATION

(Rs. Billion at Current Market Prices)

	1980 *Estimate*	**1981** *Projection*	**1985** *Projection*	**1981-85** *Total*
1. Total Resources:	83.2	103.6	189.0	717.3
(*a*) GDP at Market Prices	68.3	87.8	160.5	606.7
(*b*) Net Imports (Goods & Non-Factor Services)	14.9	15.8	28.5	110.6
2. Total Utilization:	83.2	103.6	189.0	717.3
(*a*) Consumption	58.7	78.1	145.7	548.0
of which (i) private consumption ..	53.0	71.5	132.7	499.2
(ii) public consumption ..	5.7	6.6	13.0	48.8
(*b*) Investment:	24.5	25.5	43.3	169.3
of which (i) private investment ..	10.2	10.9	24.6	79.7
(ii) public investment ..	14.3	14.6	18.7	89.6
3. Financing of Investment:				
(*a*) National savings	11.4	11.3	20.9	76.3
(*b*) Foreign resources	13.1	14.2	22.4	93.0

3.21 As seen from the above table, approximately 45 per cent of the total investment is to be financed from national savings while the balance is to be financed from external resources. More than half of the latter consists of concessional aid in the form of grants, project loans and commodity loans. Net aid disbursements are expected to rise from a level of US $ 378 million in 1981 to US $ 628 million by 1985. The balance inflow of external resources is expected from direct foreign investment, and commercial loans. The commercial loan component would no doubt have unfavourable consequences upon the country's debt service ratio which has been successfully brought down to a level of about 12.4 per cent of export earnings in 1980 from levels over 20 per cent in the 1970s, through a deliberate shift towards concessional assistance and higher export earnings. However, it is the Government's policy to keep commercial borrowing to the minimum level feasible.

3.22 The projected levels of private consumption in the above table reflects a growth rate of 20 per cent per annum in current terms. Although the larger share of investment during the terminal year 1985 is expected from the private sector, for the period 1981-85 as a whole, the share of the public sector is estimated at 53 per cent. This is largely attributable to heavy public expenditure on essential infrastructure during the early phase, in order to support private sector activity during the mid-1980s. The total public sector investment including extra budgetary investments is estimated at Rs. 89.6 billion in current market prices for the period 1981-85 as against a total of Rs. 67.3 billion for the period 1980-84.

3.23 The increase is entirely due to cost escalations; there is,in fact, a decline of public investment in real terms when estimated at constant 1979 prices, and reflects a conscious attempt by the Government to hold down public investment. Table 3.5 sets out the magnitudes of public investment, and the proposed method of financing.

TABLE 3.5

FINANCING OF PUBLIC INVESTMENT

(Rs. Million at Current Market Prices)

	1980 *Estimate*	1981 *Projection*	1985 *Projection*	1981-85 *Total*
1. Public Investment (government budget) ..	12,772	12,041	15,610	75,328
2. Public Investment (extra budgetary) ..	1,500	2,571	3,100	14,251
3. Total Public Investment	14,272	14,612	18,710	89,579
4. Financed by:				
(*a*) Public Savings (including surpluses of public corporations)	351	157	1,006	4,764
(*b*) Domestic Borrowings	8,204	6,465	6,117	30,607
(*c*) Net Foreign Resources	5,717	7,990	11,587	54,208

3.24 As seen from Table 3.5, the extent of total public investment to be financed from foreign sources is estimated at 60 per cent. This is lower than the projected level of 63 per cent for the period 1980-84 and reflects the Government's desire to achieve self reliance in financing development efforts.

3.25 As mentioned earlier, a conscious attempt is also being made by the Government to alter the composition of public investment in favour of production oriented investment outside Mahaweli, despite the heavy on-going content of the programme. Investments in agriculture and other production oriented programmes are expected to increase from a level of 21.3 per cent of total public investment financed from the government budget in 1981, to a level of nearly 30 per cent in 1985, as shown in Table 3.6 below.

TABLE 3.6

PRODUCTION ORIENTED INVESTMENT OUTSIDE MAHAWELI PROGRAMME

(Rs. Million)

	1981	%	1982	%	1983	%	1984	%	1985	%
1. Total Budgetary Investment	12,041	(100.0)	15,777	(100.0)	16,324	(100.0)	15,576	(100.0)	15,610	(100.0)
of which Mahaweli ..	3,750	(31.1)	7,217	(45.7)	6,963	(42.7)	6,800	(43.7)	4,260	(27.3)
2. Non Mahaweli Expenditure ..	8,291	(68.9)	8,560	(54.3)	9,361	(57.3)	8,776	(56.3)	11,350	(72.7)
of which										
(a) Economic & Administrative Overheads	3,505	(29.1)	2,901	(18.4)	3,118	(19.1)	3,016	(19.4)	3,816	(24.4)
(b) Housing, Water Supply and Urban Development	1,637	(13.6)	1,973	(12.5)	2,054	(12.6)	1,650	(10.6)	2,028	(13.0)
(c) Agriculture and other Production oriented programmes outside the Mahaweli ..	2,559	(21.3)	2,883	(18.3)	3,300	(20.2)	3,203	(20.6)	4,663	(29.9)

4. Imports, Exports and the Balance of Payments

4.01 According to the best indicators presently available, it is likely that Sri Lanka will continue to face a difficult balance of payments situation in the next five year period, despite the anticipated increases in net foreign exchange earnings from several sectors of the economy. Thus, if Sri Lanka were to fall back on its own resources she will not be able to maintain a free flow of imports essential to the well-being of the community in general, and to implement the important development projects in particular, on which the long-term solution to many pressing economic and social problems crucially depends.

4.02 The balance of payments prospects during the medium term depend on the movement of international prices of Sri Lanka's exports and imports on the one hand and the production prospects for the key export commodities and import demand on the other. Sri Lanka's average export and import prices are expected to rise annually by 9 per cent and 11 per cent respectively. These rates are generally in line with the price forecasts for primary commodities made by the World Bank. Thus, the terms of trade for Sri Lanka are expected to deteriorate from 100 in 1980 to 93 in 1985. The volume of exports originating in the tree crop sector which continues to be the mainstay of Sri Lanka's external trade does not show the potential for an appreciable increase during the medium term, due to reasons spelt out earlier.

4.03 The balance of payments projections for the medium term are shown in Table 4.1 below.

TABLE 4.1

BALANCE OF PAYMENTS 1980, 1981 AND 1985
(US $ Million at Current Prices)

	1980	1981	1985
		(Projection)	
1. Merchandise			
(*a*) Exports	1064	1221	1991
(*b*) Imports	2049	2188	3809
2. Trade Balance	- 985	- 967	- 1818
3. Non-factor services (net)	79	108	274
4. Factor Services (net)	- 27	- 86	- 168
5. Private transfers (net)	137	176	500
6. Current account balance	- 796	- 769	- 1212
7. Net aid disbursements	238	378	628
8. Direct foreign investment	43	56	82
9. Public Sector: other medium and long-term loans (net)[1]	66	130	201
10. Private Sector: other medium and long-term loans (net)	39	58	88
11. SDR Allocation	16	16	—
12. Other Financing items[2]	394	131	213

[1] This group includes corporations and businesses under public sector management.

[2] Includes short-term credits, monetary movements and errors and omissions.

Exchange rate assumptions 1981-85: US $ 1.00 = Rs. 18.45 (Average).

4.04 A large part of the deficit is attributable to an increase in the value of intermediate goods particularly those of crude oil and raw materials for export processing industries. However, the current account deficit[1] as a proportion of GDP is expected to decline from 16 per cent in 1980 to 11 per cent in 1985.

4.05 It is important to note that Sri Lanka would reach self sufficiency in rice during the period considered and that wheat flour imports have already ceased after the commissioning of the Prima Flour Milling Complex early this year. Further, savings on imports of consumer goods have been anticipated chiefly due to the increase in the production of paddy and other field crops, fisheries and livestock. The impact of these significant changes will be somewhat marred by the sharp price increases in the other important items of imports. The imports of capital goods are projected to increase substantially over the period. The project content of investment is such that considerable imports of machinery and equipment (including transport equipment) will be required during the next five years. The scope for import substitution in intermediate goods though marginally higher than in the case of investment goods, will not be sufficient to make an impact on the balance of payments position. However, the present projections for the medium term show that the share of consumer goods could fall from 28 per cent of total imports in 1980 to 22 per cent, while that of intermediate goods could rise from 48 per cent to 57 per cent during the same period.

4.06 Out of the identified imports in the trade projection presented in Table 4.2 below, petroleum, wheat grain, sugar and fertilizer imports account for an average share of about 42 per cent of total imports over the period 1981-85. The demand for crude oil is projected to increase from 1.86 million tons in 1980 to 2.27 million tons in 1985. Wheat grain imports are likely to increase from the 1980 level of 216 thousand tons to about 627 thousand tons by 1985. Imports of fertilizer from now on, will be mainly the non-nitrogenous varieties, since the new urea factory has already reached the stage of commercial production. The increase in the volume of fertilizer imports after the year 1983 indicates the increase in demand for varieties other than urea. Overall, the imports are expected to grow at an average rate of 13 per cent in current prices or at 1.8 per cent in constant prices during the period 1980-1985. Table 4.2 below shows the trade projections for the years 1981 and 1985 alongside the values for 1980.

4.07 During the period 1980 to 1985 the total exports of goods are expected to grow at an average rate of 13.4 per cent per annum or 4 per cent per annum in constant prices. During the same period the share of tree crop exports could decline from 54 per cent of the total to about 46 per cent. Relatively high growth rates are expected in the case of industrial products, minor agricultural products and gems.

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1 Corresponds to the definition adopted by the Central Bank i.e current account deficit shown in Table 4.1 above plus official transfers.

TABLE 4.2

EXPORT AND IMPORT PROJECTIONS 1980, 1981 AND 1985
(Value in US $ Million at Current Prices)

	1980	1981	1985
		(Projection)	
1. Exports f.o.b.	1064	1221	1991
Tea volume ml. kg.	185	190	194
Value	373	395	544
Rubber volume ml. kg.	121	135	134
Value	156	172	235
Coconuts volume ml. nuts	239	511	477
Value	46	79	132
Gems value	40	52	68
Petroleum products—value	189	208	357
Indusrtial goods—value	151	177	410
Minor agricultural products—value	79	94	166
Urea fertilizer—value	—	5	5
Rice value	—	—	2
Other exports—value	30	39	72
2. Imports c.&.f.	2049	2188	3809
Rice volume th. mt.	190	160	—
Value	52	49	—
Wheat flour volume th. mt.	361	—	—
Value	107	—	—
Sugar volume th. mt.	200	190	200
Value	117	137	196
Wheat grain volume th. mt.	216	485	627
Value	38	120	242
Fertilizer volume th. mt.	376	250	323
Value	81	52	98
Petroleum i. Crude oil volume ml. tons	1.86	1.95	2.27
Value	442	541	992
ii. Products value	52	73	127
Other consumer goods—value	255	248	418
Other immediate goods—value	407	463	939
Investment goods—value	491	495	797
Unclassified	7	10	—

4.08 Table 4.2 above shows that, exports of industrial goods will increase from US $ 151 million in 1981 to US$ 410 million in 1985. The export prices for these goods have been assumed to increase *pari passu* with international inflation. The bulk of the increase in industrial exports is expected to come from made-up garments and processed foods. The industries set up, both in and outside the GCEC are expected to contribute to this increase. As already indicated, the Government has placed very high priority on export promotion.

4.09 Despite the fact that naphtha output from the petroleum refinery will be diverted to the urea plant, the value of petroleum exports show a rising trend, mainly because of the high rate of price increase assumed for petroleum products. Exports of minor agricultural products are expected to increase from a level of US $ 79 million in 1980 to US $ 166 million in 1985. These represent an area of great promise for increasing Sri Lanka's export earnings and several important measures including the establishment of a floor price scheme for selected crops have been introduced with a view to promote output and exports. Exports of gems are expected to reach a level of US $ 68 million in 1985. In view of the boom conditions presently experienced in the gem mining industry, significant increases in gem exports could be expected. A Government sponsored venture for large scale mechanised mining in areas going under the Mahaweli reservoirs will be undertaken during the period.

4.10 The projections of payments and earnings in the service account of the balance of payments represent an encouraging picture since a considerable surplus is likely to be realised during the period. Earnings from tourism are expected to rise from US $ 109 million in 1980 to about US $ 317 million in 1985. Likewise, the private transfers from abroad are expected to increase from US $ 137 million in 1980 to US $ 500 million in 1985 largely representing remittances by Sri Lankans working in the Middle East.

5. Foreign Aid

5.01 Foreign assistance from bilateral and multilateral sources has enabled the Government of Sri Lanka to plan and initiate large development projects without recourse to excessive expansionary financing in a period when the domestic resources have become scarce and severe constraints in the balance of payments have emerged. Such adverse conditions are, by and large, due to factors beyond the control of the Government, and the view held by the Government has always been that, foreign assistance used judiciously, would enable Sri Lanka to make the necessary structural changes and build up a strong economy capable of self sustained growth and of withstanding adverse external factors.

5.02 The call of the present Government for large commitments of aid for massive development projects such as the Accelerated Mahaweli Development Programme has met with a positive response from the international community. The total aid commitments increased rapidly in the years after 1977. Table 5.1 below shows that the level of domestic fixed capital formation (both government and total) also increased at an even higher rate during the same period.

TABLE 5.1

FOREIGN AID COMMITMENTS, DISBURSEMENTS AND FIXED CAPITAL FORMATION 1976-1980
(US $ Million)

	1976	1977	1978	1979	1980
I. Foreign Aid[1]					
i. Commitments	180	229	384	567	740
ii. Disbursements	165	189	242	265	300
2. Fixed capital formation (Government)[2] ..	159	185	329	482	807
3. Fixed capital formation (total)[2]	329	319	545	851	1385

1. Includes non-Aid Group assistance.
2. Rates of exchange used: FEEC rate for years 1976 & 1977 and respective unified floating rates for the other years.

It may be noted that the greater availability of foreign assistance was undoubtedly an important factor promoting this dramatic growth in investment which followed the economic reforms of 1977.

5.03 However, during the period 1970-1980 the average increase in aid disbursement had been 8.1 per cent per annum as against an average increase of 11.0 per cent in commitments. Since 1979, disbursement rates have shown a further downward trend. This trend is explained mainly by the fact that there has been a definite shift during the same period from commodity aid to slow disbursing project aid and a substantial increase in commitments. The Government is fully aware of this problem and steps are being taken to remove procedural bottlenecks affecting disbursements.

5.04 The total foreign aid disbursements in the period 1981 to 1985 will depend to a large extent on the rate of implementation of the public investment programme. A large proportion of the budgetary public investment programme (65 per cent in 1981) is to be financed through foreign aid. Of the already committed aid, disbursements on the Accelerated Mahaweli Development Programme are now expected to reach a peak of about US $ 245 million per annum during the two year period 1982-83. For purposes of making a projection of aid disbursements for the period 1982 to 1985, it has been assumed that, foreign aid commitments other than those for Mahaweli headworks will increase approximately at the rate of 10.8 per cent per annum and that the disbursement rates on such aid will improve over time. The aid disbursements on Mahaweli headworks have been related to the actual implementation schedules that are currently available. The table below shows the gross foreign aid projection which is used in the medium-term framework.

TABLE 5.2

GROSS FOREIGN AID DISBURSEMENTS 1981-1985
(US $ million)

	1981	1982	1983	1984	1985
1. Disbursements on Accelerated Mahaweli ..	113	248	241	150	109
2. Other aid	317	372	473	579	613
3. Total disbursements	430	620	714	729	722

5.05 The aid commitment assumption made in the projection shown in the above table may be considered as representing the minimum expectation. In particular it does not take into account any additional commitments in respect of Mahaweli headworks.

5.06 Since 1977, large price increases occured in the international markets. According to price indices prepared by the World Bank, the total increase in the prices of manufactured products exported from the industralised countries to developing countries was about 45 per cent, in the period 1977 to 1980. This resulted in a considerable decline in the quantum of real resources represented in the undisbursed aid commitments. As a consequence of this development, and several other factors, large differences between foreign aid requirements and availability have now emerged in the major development projects. The smooth implementation of the public investment programmes depends crucially on whether additional commitments would be made by the donors to fill these gaps. Where unavoidable, the Government may use commercial financing to supplement concessionary assistance. However, it is the policy of the Government that, such financing will be used only as a last resort and the amount so mobilised would be kept to a minimum.

5.07 As was noted earlier, the recently observed shift to project based aid had the effect of slowing down the rate of aid disbursements. In view of the relatively large deficits on the balance of payments projected for the next five years, it has become necessary to have in the aid pipeline a larger component of quick disbursing aid, not necessarily tied to implementation of development projects. Therefore, the most important need now is for more flexible commodity aid, including aid which could be used to import capital equipment for development projects, where gaps in foreign financing have appeared.

6. Capital Budgets 1980 and 1981

6.01 Budget performance in 1980 was unsatisfactory with the overall fiscal deficit expanding from 14 per cent of GDP in 1979 to 21 per cent. This was largely due to the implementation of the public investment programme, the cost of which had greatly exceeded original expectations. The capital votes in respect of the Mahaweli Development Board, the National Housing Authority, the Urea Project, the National Television Project, the Amortization of Public Debt, Irrigation, and Urban Development Authority were supplemented substantially during the budget year 1980. These increases in capital expenditure together with increases in recurrent expenditure amounting to Rs. 2439 million led to a situation in which the Government was compelled to borrow from the banking system to the extent of Rs. 7077 million. Total investment in the economy also rose dramatically (36 per cent of GDP in 1980) without a corresponding increase in domestic savings. In fact the latter declined from 15 per cent of GDP in 1978 to 13.5 per cent in 1979 and 1980.

6.02 With a view to preventing the recurrence of this situation in 1981, Government undertook a complete review of its investment programme in November 1980 as well as in March 1981. It is a key element of Government's policy that capital expenditure in the government budget must be contained within limits consistent with the volume of financial and real resources estimated to be available for public investment. The Government has therefore, set itself expenditure ceilings, which it is determined to adhere to.

6.03 As a result of the reviews undertaken in November 1980 and March 1981 the following changes were made to the budget 1981. It was decided that expenditure on the Accelerated Mahaweli Development Programme should be increased and that increases in expenditure must also be allowed for water supply and rural electrification to avoid undue disruptions to these on-going projects and to accommodate available foreign assistance. Power needs, necessitated an increase in spending for gas turbines. Also, to stimulate further agricultural development, increased allocations were made to minor irrigation works. Some additional allocations were also made for highways, building maintenance and the construction of fertilizer warehouses. To accommodate these increased allocations, the votes of all other ministries were reduced by 10 per cent. The net result of all these changes has been to increase the capital budget to Rs. 12,041 million which is still, even in nominal terms, much less than the 1980 level.

6.04 Government's fiscal operations for the years 1979-1981 and 1985 are given in Table 7.1. To keep to the planned budgetary ceilings, Ministries have been requested to refrain from presenting new projects in 1981, 1982 and 1983. New information systems have been introduced in February 1981 and mechanisms for expenditure control are being established. Government has also decided not to allow any supplementary authorization in 1981 except to accommodate exchange rate changes on the local currency equivalent of foreign aid or to redistribute funds between programmes. Any cost escalations will, therefore, have to be absorbed within the expenditure ceilings. However, certain supplementary provision for recurrent expenditure will be required to meet the estimated losses of the Transport Board, the Electricity Board and the additional interest payments on Public Debt. As a result of these changes, the overall deficit in the revised budget amounts to Rs. 12,713 million or 14.5 per cent of GDP of which approximately Rs. 3,400 million, will be financed from the banking system.

6.05 In the years 1982-1985, Government has set itself certain minimum targets of additional resource mobilization. Capital expenditures have been reduced to the minimum levels possible without dislocating on-going priority programmes. The basic principle has been to implement all projects for which aid has been committed. Other programmes have been rephased and included only to the extent that they can be accommodated within the remaining margin of available resources. The margin includes a modest level of borrowing, which could be reduced to the extent that further financing becomes available for this committed programme. The Accelerated Mahaweli Programme has been given the highest priority and budgeted for realistically, with a view to completing this important programme according to target. The housing, urban development and water supply programmes have been kept to the reduced 1981 levels in nominal terms. Next to the Mahaweli Project, priority has been given to the other productive sectors in agriculture and to essential economic infrastructure, thus making the total public investment programme a viable one.

TABLE 6.1

SECTORAL COMPOSITION OF PUBLIC INVESTMENT (GOVERNMENT BUDGET)

(Rs. Million)

	1980	%	1981	%	1982	%	1983	%	1984	%	1985	%
1. Agriculture, Fisheries & Irrigation ..	5,915	39.8	4,861	40.4	7,247	45.9	7,644	46.8	7,347	47.2	7,372	47.2
2. Industries	855	5.8	135	1.1	82	0.5	60	0.4	39	0.3	126	0.8
3. Economic & Administrative Overheads ..	5,402	36.4	4,819	40.0	5,672	36.0	5,678	34.8	5,633	36.1	5,241	33.6
4. Housing, Water Supply & Urban Development	2,162	14.6	1,687	14.0	1,973	12.5	2,054	12.6	1,650	10.6	2,028	13.0
(of which water supply)	(485)	(3.3)	(613)	(5.1)	(929)	(5.9)	(967)	(5.9)	(575)	(3.7)	(416)	(2.7)
5. Health, Education, Employment & Social services	515	3.4	539	4.5	803	5.1	888	5.4	907	5.8	843	5.4
Total ..	14,849	100	12,041	100	15,777	100	16,324	100	15,576	100	15,610	100
Less: Under expenditure & frozen provision	2,077	—	—	—	—	—	—	—	—	—	—	—
Net expenditure for financing	12,772		12,041		15,777		16,324		15,576		15,610	
Add: Extra Budgetary Investment ..	1,500		2,571		2,680		2,800		3,100		3,100	
Total Public Investment	14,272		14,612		18,457		19,124		18,676		18,710	

The net effect of this strategy has been to reduce government capital expenditure in real terms and leave more resources to the private sector. Government capital expenditure is seen to drop from 14 per cent of GDP in 1981 to 9.5 per cent in 1985. The terminal year 1985 also leaves room for the inclusion of new projects amounting to about Rs. 4 billion. A tentative distribution of this sum of Rs. 4 billion likely to be as follows:- 50 per cent to agriculture; 35 per cent to economic overheads (mainly for power with Samanalawewa project being scheduled for commencement); 13 per cent for housing and water supply and 2 per cent to industry. A sectoral classification of the public investment programme for the entire period is given in Table 6.1.

7. The Government's Fiscal Operations

7.01 The Government's fiscal operations have been guided by the broad objectives of mobilising resources for capital expenditure while maintaining acceptable levels of social welfare, maintaining fiscal stability through rationalization of the tax structure while promoting private enterprise, maintaining a reasonable balance in the Government Budget and ensuring realistic pricing and wage policies. The main thrust of fiscal policy for the period 1981-1985 will be on increasing resources for economic development. The Government realises that domestic savings have to be mobilized to the maximum extent possible.

7.02 The Government has kept under constant review its current expenditure with a view to curtailing non essential expenditures. The priorities of the current expenditures were re-assessed especially with respect to the items falling under current subsidies and current transfers to public corporations. In order to meet basic minimum needs of the poorer sections of the community, the food and kerosene stamp schemes were continued. These schemes are essentially transfers to relatively poor families selected after a careful scrutiny. Expenditure on the food and kerosene stamp scheme is estimated at Rs. 1,742 million in 1980 and Rs. 1,687 million in 1981. Had the food subsidy scheme continued, the rice, flour, sugar and infant milk food subsidies together would have amounted to around Rs. 4,900 million during 1981.

7.03 One of the significant achievements in the field of fiscal policy has been the gradual shift from consumer subsidies to producer subsidies for fertilizer, fisheries, liquid milk and; price support scheme for green leaf (tea) and import duty rebates for certain exports like garments, manufactured by using imported inputs. As a result of this transformation, farmers now receive a better price for their products in the open market. Prices of key agricultural commodities have been adjusted periodically through floor price schemes to the producers' advantage. The fertilizer subsidy has now been revised downwards from its initial average rate amounting to 75 per cent of the c.i.f. value of fertilizer to more manageable levels; the fertilizer subsidy in 1981 is estimated at Rs. 1,000 million and represents about 40 per cent of total expenditure on subsidies.

7.04 In the case of public corporations, strict financial disciplines together with great autonomy in pricing policy have enabled most of them to operate at a profit. In the projections of Government expenditure, the total of subsidies, transfer to other public enterprises and transfers to households have been accordingly adjusted downwards to allow for changes which will reduce these expenditures in real terms over the five-year period.

7.05 Although much emphasis is placed on reduction of recurrent expenditure, sufficient provision has been made in respect of maintaining adequate cadres in the public service, particularly the managerial, technical and administrative categories on whom much of the development effort would depend. The expenditures on education and health will be maintained to preserve satisfactory standards.

7.06 With a view to maintaining financial discipline in the Government Departments and Ministries, steps have been taken to improve the procedure for releasing voted funds. A decision has also been taken not to allow any supplementary estimates for 1981 except to meet changes in the foreign aid components of projects arising from changes in the exchange rate and for carefully selected items of expenditure.

7.07 Several steps have also been taken by Government to improve revenues over time. Numerous tax concessions and incentives for development have no doubt been introduced. Although these involve temporary losses in revenue to the Government, the measures may be viewed as 'investments' in broadening the future tax base.

7.08 The tax structure of this country has to a large extent continued to be foreign trade oriented. Export duties have been the largest single component of current receipts amounting to as much as 30 per cent in 1980. The prospects for increasing revenue from major exports are limited. Their share in total Government's currrent receipts is expected to be static throughout the 1981-85 period. Growth in revenue from import duties was not remarkable in comparison with the value of imports observed during the last two years, mainly due to the substantial increase in the value of non-dutiable goods in the incremental growth of imports. Rice, wheat grain, fertilizer, petroleum, crude oil and all imports of the Government are the major items still exempted from import tariffs. Changes in the exchange rate and upward revision of some import duty rates contributed to the increase in import duty collections.

7.09 Revenues from other indirect taxes such as general sales and turnover taxes have shown a greater response to increases in national income and prices. The withdrawal of the lump sum depreciation—capital allowance and the general growth in money incomes have been taken into account in projecting revenues from the corporate and non-corporate income taxes in the five-year period.

7.10 Tax revenue as a proportion of GDP at current market prices reached a level of 21.3 per cent in 1979, but dropped to 17.5 per cent in 1980 and is estimated

TABLE 7.1

THE GOVERNMENT'S PROJECTED FISCAL OPERATIONS — 1979 TO 1985
(Rs. Million at Current Prices)

	1979 (*Provisional*)	1980 (*Original*)	1980 (*Revised*)	1981 (*Original*)	1981 (*Revised*)	1985 (*Projected*)
1. Current Receipts ..	11,779	11,300	12,597	14,394	14,778	25,968
2. Current Expenditure ..	10,887	10,552	12,819	14,496	15,756	26,294
3. Current Account Surplus ..	892	748	—222	—102	—978	—326
4. Capital Receipts ..	250	227	330	227	227	232
5. Advance Accounts net out payments	1,021	100	1,775	—675	—79	—
6. Capital Expenditure net of sinking fund and amortization payments and net of under expenditure ..	7,347	8,449	12,772	11,026	12,041	15,610
7. Overall deficit ..	7,226	7,574	14,439	10,226	12,713	15,704
8. Financing						
8.1 Net foreign financing	3,738	5,329	5,717	7,539	7,990	12,662
8.2 Net domestic non-bank financing ..	2,855	2,245	1,529	2,691	1,336	3,042
8.3 Bank borrowings and use of cash balances ..	633	—	7,193	—4	3,387	—
9. GDP at current market prices	52,147	68,271	68,271	87,800	87,800	160,500

TABLE 7.2

THE GOVERNMENT'S PROJECTED FISCAL OPERATIONS—1979 TO 1985
(As percentage of GDP at Current Market Prices)

	1979 (*Provisional*)	1980 (*Original*)	1980 (*Revised*)	1981 (*Original*)	1981 (*Revised*)	1985 (*Projected*)
1. Current Receipts ..	22.6	16.5	18.4	16.4	16.8	16.2
2. Current Expenditure ..	20.9	15.4	18.7	16.5	17.9	16.4
3. Current Account Surplus ..	1.7	1.1	—0.3	—0.1	—1.1	—0.2
4. Capital expenditure net of sinking fund and amortization payments and net of under expenditure ..	14.1	12.4	18.7	12.6	13.7	9.7
5. Overall deficit	13.9	11.1	21.1	11.6	14.5	9.8
6. Financing						
6,1 Net foreign financing	7.2	7.8	8.4	8.6	9.1	7.9
6.2 Net domestic non-bank financing ..	5.5	3.5	2.2	3.0	1.5	1.9
6.3 Bank borrowings and cash balances ..	1.2	—	10.5	—	3.9	—

to be 16.2 per cent in 1981. At existing rates of taxes, revenue is expected to decline gradually to 14.0 per cent in 1985. Government will take steps to mobilise additional resources in order to maintain a more satisfactory Tax /GDP ratio. Attractive tax concessions and incentives mentioned earlier had the effect of reducing the share of tax revenue, especially the direct tax revenue in GDP. As tax holidays start to lapse after 1985, revenues are expected to rise substantially. In the meantime, attempts will, however, be made to mobilize additional revenue by strengthening tax collection procedures, broadening the direct tax base, and through suitable additional indirect tax measures.

7.11 The investment programme of the Government will be financed mainly from funds borrowed locally and abroad. The traditional non-bank sources such as National Savings Bank, Provident Funds and Insurance Corporations will play a very important role in the financing of public investment.

7.12 An important share of foreign assistance will be in the form of grants. In the past few years, more than 50 per cent of the Government's investments were financed through foreign aid. Borrowing from the banking system on commercial terms either locally or abroad will be considered only as a last resort.

7.13 Government's fiscal operations during the programme period are expected to result in the decline in the share of the recurrent expenditure in GDP at current prices from 18.7 per cent in 1980 to 16.4 per cent in 1985. The current receipts of the Government are expected to be maintained throughout 1981-1985 period at over 16.2 per cent. Additional revenue measures and the reduction in current expenditure during the period could reduce the current account deficit over time. Opportunities for the growth of private savings will be enhanced. Necessary fiscal and monetary measures will be introduced to ensure that the private sector will have access to resources adequate to finance a growing share of total investment over the medium term.

8. Population, Manpower and Employment

8.01 Preliminary estimates from the 1981 Census, place Sri Lanka's population in the region of 14.9 million, suggesting that population growth rates have fallen from an average of 2.3 per cent per annum during the intercensal period 1963-71 to 1.7 per cent during the period 1971-81. In the seventies, a steady decline in birth rates and death rates together with steady net migration resulted in declining rates of both natural increase and population growth. In the latter half of the decade, there was a further decline in the death rate and a slight increase in the birth rate, offset by net migration increases. Table 8.1 below shows the growth rates which resulted from these changes.

8.02 Improved health and nutritional standards have reduced mortality, particularly among infants, although infant mortality still remains the main component of total mortality. Although average mortality rates are low, wide disparities among regions

TABLE 8.1

DEMOGRAPHIC CHANGES 1971-1979

	Birth Rate*	Death Rate*	Rate of Natural Increase %	Net Migration Rate	Growth Rate %
1971-75	28.7	8.2	2.1	— 3.2	1.7
1976	27.8	7.8	2.0	— 3.8	1.6
1977	27.9	7.4	2.1	— 3.7	1.7
1978	28.5	6.6	2.2	— 2.3	2.0
1979	28.7	6.5	2.2	— 5.0	1.7

Source: Registrar General's Department.
★ Per 1000 population.

suggest that a further decline is possible. Higher levels of education combined with increasing participation of women in the labour force and a rising share of female employment in the non agricultural wage sectors has contributed to lowering fertility. As the potential for further reductions in fertility rates among women in the 30-39 age groups is quite high, a continued decline in the overal growth rate should be possible, particularly in view of the vigorous family planning programme adopted by the country.

8.03 The size of the labour force is currently estimated at 5.69 million, of which 3.64 million (or 64 per cent) is male. The average annual growth rate between 1978 and 1980 is estimated at 2.4 per cent, which represents a net addition of 132,000 persons to the labour force each year.

8.04 Present labour force projections for the 1980-85 period suggest annual increases of the order of 2.2 per cent. In terms of actual numbers, about 640,000 persons will be added to the labour force by 1985, thus raising it to 6.3 million. During the next decade it is expected that expansion of educational opportunities for females, rise in the age of marriage, low birth rates and greater urbanization will encourage more females to join the labour force. The labour force participation rate for females is steadily rising and is expected to increase to around 27 per cent.

8.05 The labour force is predominantly young, male, relatively well educated and rural based. Those in the age group 14-25 make up 38 per cent and women account for only 36 per cent of the total labour force. More than 55 per cent have secondary or post-secondary education and 51 per cent obtain their livelihood from the land. The expansion of educational facilities will mean that in the near future, an even higher proportion of new entrants to the labour force will have secondary education. Thus Sri Lanka is facing the familiar employment syndrome of having to absorb increasing numbers of a young and educated labour force into productive and remunerative employment.

8.06 Given the rapid rates of labour force growth (2.7 per cent) and the relatively slower growth of employment opportunities (averaging about 1.6 per cent) between 1971-77, the Government has embarked upon a major employment-oriented programme to prevent a very serious unemployment problem developing. Since the modern manufacturing sector at present employs only 10 per cent of the labour force, the growth of agriculture is still the key to the solution of the problem.

8.07 By 1979 Government's policy of liberalisation and resuscitation of the economy had had a substantial impact on unemployment. The Consumer Finance Survey of 1978/79 showed that unemployment had fallen from approximately one million (or 24 per cent of the labour force in 1973) to 790,000 (or 15 per cent). This spurt in employment creation was maintained up to 1980 with employment growing at an estimated 3.5 per cent per annum against output increases of 6.1 per cent per annum between 1978-80. Increases in employment in the public sector and the organised sector were around 145,000 in 1978 and 136,000 in 1979, a marked increase on previous years (85,000 jobs between 1972-76).

8.08 The Consumer Finance Survey also showed that about 36 per cent of the employed population (work force) had regular work as 'employees'. Daily workers (26 per cent), own account (23 per cent), and unpaid family workers (14 per cent) accounted for the remainder. A high proportion (69 per cent) was male, but the proportion of women is significantly higher among unpaid family workers (52 per cent). The urban sector accounted for 19 per cent, estates for 13 per cent and rural sector for 67 per cent of the work force. The public sector (including semi-government corporations) employed 33 per cent. A distinctive feature of the work force was the age structure and the level of educational attainment. In the case of the former, a high percentage (25) was aged between 19 and 25 years and in the latter case 48 per cent had secondary education (a quarter of whom had post-secondary education).

8.09 The unemployed are mostly young (75 per cent below the age of 25) and educated (some 75 per cent with secondary schooling). Most of them (85 per cent) are supported by the parents and are looking for their first jobs. The survey shows that unemployment among females is higher than that among males (26 per cent as against 10 per cent for males) and that unemployment in the rural sector (15 per cent) is lower than in the urban sector (21 per cent).

8.10 The high rate of employment creation (3.5 per cent) experienced in the period up to 1980 is expected to stabilise around 2.6 per cent per annum during the period 1980-85. Output increases, averaging 5.7 per cent per annum will arise to a greater extent from productivity increases. Based on employment /output coefficients for the period 1963-71, (with some adjustments for the agriculture, manufacturing and construction sectors), additional employment is projected at around 682,000. With this employment creation the estimated 641,000 additions to the labour force will be absorbed and the

TABLE 8.2

PROJECTIONS OF GROWTH IN POPULATION, LABOUR FORCE AND EMPLOYMENT 1980-85

(Millions)

Sector	Rate of Growth 1963-1971 *p.a.*			1978	1980	Rates of Growth[b] 1980-85 *p.a.*			1985	Increase/ Decrease 1980—85 [c]
	Output	*Employ-ment*	*Proudcti-vity*	*Nos.*★	*Nos.* [a]	*Output*	*Employ-ment*	*Producti-vity*	*Nos.*	*Nos.*
1. Employment										
Agriculture	1.9	1.1	0.8	2.385	2.578	4.4	2.4	2.0	2.903	0.325
Mining and Quarrying	10.7	4.7	6.0	0.055	0.057	9.2	4.0	5.2	0.069	0.012
Manufacturing	6.2	1.9	4.2	0.632	0.642	6.4	2.6	3.8	0.730	0.083
Construction	9.2	2.6	6.4	0.218	0.245	12.0	5.0	7.0	0.313	0.068
Services	5.4	2.4	2.9	1.345	1.440	5.0	2.5	2.5	1.629	0.189
Total/Average	4.4	1.7	2.7	4.633	4.962	5.7	2.6	3.1	5.644	0. 682
	Growth Rate (1963-71) *p.a.*					*Growth Rate* (1980-85) *p.a.*				
2. Unemployment		15.6		0.792	0.726		—1.3		0.685	—0.041
3. Labour Force		3.4		5.425	5.688		2.2		6.329	0.641
4. Population		2.3		14.345	14.812		1.6		16.060	1.248

Notes : (*a*) Projected on the basis of 1963-71 employment/output coefficients except for Agriculture and Construction for which slightly higher employment creation was assumed.

(*b*) Adjustments for Agriculture, Manufacturing, Construction and Services Sectors were made in view of the trends in the economy, as noted in the text.

(*c*) Includes 57,000 workers as replacement of repatriated Indian labour in the Plantation Sector. The actual rate of employment growth as a result of output increases in the Agricultural Sector would be 2% p.a. excluding this. Allowance has also been made for the replacement of migrant workers to the Middle East in assessing employment in the manufacturing, construction and service sectors.

★ Consumer Finance Survey 1978/79.

backlog of unemployed reduced by 41,000. Total unemployment is expected to fall from a level of 12.8 per cent to 10.8 per cent of the labour force.

8.11 In the agriculture sector the overall acreage will not increase except under the Mahaweli downstream development and additional paddy acreage resulting from the rehabilitation of minor tanks and other irrigation works in progress. The main emphasis will be on obtaining higher yields from rehabilitation /replanting and diversification of lands under plantation crops, and on better water and crop management and use of fertilizer in field crops. Hence the employment potential of the output increases envisaged for the period has been estimated at 2.4 per cent per annum. Of the 100,000 estate labour likely to be repatriated, only about 50,000 are likely to be re-placed. Settlement schemes under the Mahaweli Project are expected to absorb another 40,000 persons in self employment. Some employment will also be created through increasing paddy acreage and the use of labour intensive cultivation practices in weed control, land preparation, double cropping and harvesting which go in step with increases in output.

8.12 Heavy investment in machinery in the construction and manufacturing sectors will also increase productivity substantially above that obtained in the 1963-71 period. Construction activity in the Mahaweli area and the Investment Promotion Zones will remain at a high level and together with activity in the housing and water supply sectors will provide about 68,000 additional jobs. In the manufacturing sector, despite growth in labour productivity, the Government's policy of encouraging the private sector in export-oriented and labour intensive industries will create about 88,000 jobs.

8.13 Part of this additional employment, particularly in the services and construction sectors, will be replacement of workers leaving for jobs in the Middle East. Around 50,000 Sri Lankan workers are now in the Middle East, 7 per cent in middle level, 39 per cent in skilled and 54 per cent in semi-skilled jobs. In the period 1980-85, this number is expected to double.

8.14 Output from educational institutions between 1980-85 will be in the region of 1,414,000 young persons, about 37 per cent with primary schooling another 37 per cent with some secondary schooling, 19 per cent having completed secondary school and 7 per cent with G.C.E. 'A' level or degree qualifications. Only about 60 per cent of these young persons will enter the labour force and most will require some form of additional technical or vocational training before they can be productively employed.

8.15 In order to absorb the large numbers coming out of the education system into current development projects and to overcome current critical shortages of skilled craftsmen (particularly technicians, carpenters, masons, mechanics and electricians), Government has increased technical training facilities, provided short term courses and expanded the Apprenticeship Scheme.

8.16 The Department of Labour has, in addition to its three vocational centres 330 mobile centres, which together provide training for about 5,000 trainees in basic skills. The technical colleges, which provide a wide range of craft and technician level courses have an enrolment of 12,000 full and part-time students. In addition, the craft apprenticeship scheme currently trains 3,000 apprentices.

8.17 In addition to the skilled manpower produced by the public sector technical and vocational training institutions, the private sector will also train on the job, a large number of skilled craftsmen under the supervision of skilled workers and master craftsmen. It is recognised that some of these trainees will find employment overseas, particularly in the Gulf States. However, they represent, through remittances, a valuable source of foreign exchange and ultimately experienced skilled manpower.

9. Energy

9.01 The Government realises that the very achievement of its socio-economic objectives will lead to increased consumption of energy. Given future increases in oil prices, an energy policy which will ensure the most efficient use of energy, as well as accelerate the utilization of indigenous energy sources as substitutes for imported petroleum, is vital. However, the capacity to make the necessary energy transition is limited. Technical, financial and structural rigidities, energy resource endowments and the extended time lags in developing alternative energy resources, work against any significant inter-fuel substitution in the short run.

9.02 The principal sources of energy in Sri Lanka are fuel-wood, petroleum and hydro-electricity. The total consumption of energy in 1979 has been estimated at 3.7 million tonnes of oil equivalent. As much as sixty per cent of the total energy needs of the nation are supplied by firewood. Commercial energy is provided mainly by oil and hydro-electricity, the former accounting for two thirds of the consumption at present.

9.03 With increased economic activity, the demand for petroleum increased sharply in 1980, when net oil imports accounted for 35 per cent of the net export income, compared with a level of 16 per cent in 1977.

9.04 The main factor behind heavy oil import costs has been the rising cost of crude oil and petroleum products. The average c.i.f. price of crude oil imports ranged between US $ 12-13 per barrel during 1977 and 1978 and rose by 50 per cent to US $ 19 per barrel in 1979. In 1980, prices escalated to US $ 33 per barrel, an increase of 70 per cent in one year.

TABLE 9.1

PETROLEUM IMPORTS 1975-1981

(US $ million)

	1975	1976	1977	1978	1979	1980	1981 *Est.*
1. Total Imports	760	643	705	1001	1450	2049	2188
2. Oil Imports	122	130	157	165	288	494	614
3. Oil Exports	51	57	65	59	120	189	208
4. Net Oil Imports	71	73	92	106	168	305	406
5. Total Exports	557	558	744	847	981	1064	1221
6. Net Exports (5-3)	506	501	579	788	861	875	1013
7. 4 as percentage of 6 ..	14	15	16	13	20	35	40
8. 4 as a percentage of 1 ..	10.9	11	13	10.5	11.5	15	18.5

9.05 Although petrol consumption has been curtailed by drastic price increases, diesel consumption which accounts for about 40 per cent of the consumption of petroleum products is likely to rise steadily, as the Railway, bus services and road hauliers are heavy consumers. Kerosene consumption which accounts for about 25 per cent of the total consumption, may also rise after a few years due to the growing needs of the rural population and the scarcity of fuel wood. In addition, Sri Lanka will have to depend on thermal generation to meet part of the electricity needs particularly during the dry season. As a result, quantities of liquid fuel required by the economy are bound to show an increase through the 1980s. This, coupled with increases in the price of oil, will tend to push the burden of net oil imports to higher levels. Although considerable progress is expected in terms of import substitution of food items (especially rice and sugar) by the mid 'eighties' yet it would mean that whatever the country may have gained by way of saving in food imports, will be lost through oil imports. Apart from the balance of payments problem, arising from the energy crisis, there are other adverse effects on the economy. Firstly, increases in world prices of oil necessitate the upward revision of the domestic price of petroleum products in order to avoid budgetary subsidies. As liquid fuels are an important component in transportation, farm power and fertilizer costs, high oil prices would impose higher costs on agricultural production as well as on other goods. Secondly, the complete dependence of Sri Lanka on imports for liquid fuels, makes the country's economy highly vulnerable to any major disruption of oil supplies.

9.06 The main objective of energy planning in Sri Lanka is to ensure that the growing demand is adequately met by a steady increase in supply so as to continue all critical economic activities which sustain accelerated development and modernization of the economy. This objective has to be achieved without imposing inordinate pressures on the balance of payments which is already constrained. Therefore, priority has to be given to expeditious exploitation of indigenous sources of energy, particularly renewable sources of energy. These considerations, in the medium-term context, dictate the need to allocate adequate resources for the hydro-electricity development programme which has been clearly identified.

9.07 During the last decade there was a steady increase in the consumption of total energy, even though there was a decrease in the consumption of oil products following price increases. The growth rate for commercial energy registered a sharp increase in 1978 going up by 14 per cent over the previous year. In 1979 however, the rate of growth was only 3 per cent. Total oil consumption in the country has shown significant changes from time to time and this is related to economic growth and the pricing policy followed at different times.

9.08 Oil, which today supplies a major portion of the commercial energy requirements of Sri Lanka, has gradually increased its share till 1972 and thereafter decreased slightly. Today as much as 66.7 per cent of commercial energy is accounted for by oil.[1] About 10 per cent of the electricity generated in the period 1970-74 has been produced from oil and its use has decreased to a level of 1.7 per cent in the period 1975-1979.

TABLE 9.2

ANNUAL GROWTH RATES OF SALES OF MAIN PETROLEUM FUELS IN PERCENTAGES 1960-1979

Period		*All petroleum products*	*Motor Gasoline*	*Illu. Kerosene*	*Auto Diesel*	*Ind. Diesel*	*Furnace Oil*
1960-65	..	3.0	—7.6	4.9	10.4	—2.4	5.5
1965-70	..	7.6	6.9	9.1	10.1	2.0	11.0
1970-75	..	—4.1	—9.2	—5.4	—0.4	—18.8	1.4
1976	..	0.1	6.2	—1.5	5.3	—4.3	—9.7
1977	..	8.9	9.6	2.3	10.7	20.2	11.6
1978	..	19.3	16.3	13.4	11.7	56.6	33.0
1979	..	2.9	—10.1	—5.5	20.6	—4.0	—6.1

9.09 Electricity sales over the period 1960-1979 grew at an average rate of 10 per cent per annum. Low growth rates have been recorded in the period 1970-75 and in 1976 and 1977. A sharp increase in the growth rate has been recorded in 1978 as well as in 1979, mainly due to enhanced economic activity over the last three years. The growth rate in the industrial sector reached a peak during the period 1965-70 and registered a sharp rise once again in 1978. The following table gives the annual growth rates of electricity sales.

TABLE 9.3

ANNUAL GROWTH RATE OF ELECTRICTY SALES—1960-1979

Period		*Total (%)*	*Domestic Sector*	*Industrial Sector*
1960-65	..	10.3	10.1	10.5
1965-70	..	13.5	7.4	15.5
1970-75	..	8.2	7.9	8.5
1976	..	3.1	7.7	0.6
1977	..	4.4	8.6	3.1
1978	..	11.6	10.1	12.1
1979	..	11.6	16.3	10.2
1960-79	..	10.0	8.9	10.4

1 Includes oil consumed in generating electricity.

9.10 Several demand forecasts for electrical energy have been made recently, revising the earlier forecasts from time to time on the basis of the emerging situation. There is a considerable variation in the forecasts made. The highest and the latest forecast of electric energy demand for 1990 is 6000 Gwh. In view of the several policy decisions already made, it is likely that the actual demand would be somewhat lower. On the basis of this forecast the generation needs for the period 1982-1990 have been computed as follows:-

TABLE 9.4

ELECTRICITY DEMAND—1982-1990
(Dry and Wet Seasons)

(Gwh)

		Total	*Hydro Capability*	*Thermal Need*
1982	DRY ..	1172	848	324
	WET ..	1270	1155	115
83	DRY ..	1368	935	433
	WET ..	1483	1105	378
84	DRY ..	1556	984	572
	WET ..	1686	1105	581
85	DRY ..	1791	1278	513
	WET ..	1899	1497	402
86	DRY ..	1970	1411	559
	WET ..	2088	1674	414
87	DRY ..	2148	1411	737
	WET ..	2276	1674	602
88	DRY ..	2336	1568	768
	WET ..	2496	1883	613
89	DRY ..	2545	1768	777
	WET ..	2698	2085	613
90	DRY ..	2778	1968	810
	WET ..	2944	2283	661

This projection assumes the following plant commissioning programme during the 'eighties.'

Victoria-mid 1984	- 210 MW	- 686 Gwh
Kotmale-end 1985	- 150 MW	- 310 Gwh
Randenigala-end 1986	- 120 MW	- 366 Gwh
Samanalawewa-end 1990-	240 MW	- 400 Gwh

Source: Ministry of Power and Energy Forecast March 1981.

9.11 It would appear that if the projected demand is to be met fully it would imply a very heavy reliance on thermal generation. The combined thermal plant capacities required by 1990 for this purpose will be of the order of 500 MW. Apart from the prohibitive capital costs, the operating costs would place very heavy pressures on the country's balance of payments and affect other development programmes. If, for example, the fuel cost of thermal energy is calculated at Rs. 5 a unit in 1986, the cost of thermal generation works out to Rs.4800 million for that year. The unit cost is likely to be higher due to rising costs of imported oil. Therefore, it is necessary to evolve a strategy which would minimise the need to resort to thermal generation except in an emergency and to underline the absolute need to proceed expeditiously in commissioning the hydro-plants included in the projection as well as exploring other hydro prospects.

9.12 The following strategies and programmes have been given emphasis in the energy policy:-

- adoption of energy conservation measures for increasing energy efficiency, particularly in domestic consumption;
- a realistic pricing policy in energy products so as to discourage high energy use;
- priority for development of hydro sources;
- stabilising oil imports while ensuring sources for minimum imports;
- expansion of fuel-wood plantations;
- water-shed management in hydro catchments;
- use of coal in place of oil where feasible;
- exploitation of indigenous peat deposits;
- exploration for petroleum;
- initiating research for nuclear power generation.

10. The Role of the Private Sector

10.01 The essence of the liberalised economic policies introduced in 1977 was to create the climate necessary to stimulate private enterprise and provide a larger role for the private sector. A vital private sector is necessary to meet the goals of increasing employment, efficiency and output. While public sector investment depends greatly upon the resources which can be generated by the private sector, public investment in essential infrastructure and expansion of the production base is seen as complementary and not competitive to the efforts of the private sector, nor as a substitute for private sector investment. This realization is fundamental to the

Government's decision to reduce planned public investment so as not to pre-empt the private sector and to provide a structure of incentives to that sector.

10.02 Prior to 1977, the market imperfections created by rigid exchange and import controls, raw material quotas, and state monopolies had limited the avenues for private sector expansion. Amongst the constraining factors were the high levels of taxation, scarcities of capital goods and raw materials, uncertainties of capital flows and threat of possible state take over. Those who had access to capital funds, directed their resources to short-term investments in trade and commerce, where opportunities created by scarcities had enhanced the potential profit margins. Others thrived on industries catering to a captive market created by import restrictions, where inferior quality local products could easily be marketed with considerable profit margins. The conditions prevailing were neither conducive to healthy long-term investment decisions by the private sector, nor served the consumer interest.

10.03 A reversal of policy was, therefore, necessary to revive the confidence of the private sector and harness the available resources and talents for national economic development. Healthy competition was necessary to promote the interest of the consumer, and improve the efficiency of resource utilisation. Areas where the State had a monopoly hitherto, were thrown open to the private sector. These steps had a dual effect on the public sector. On the one hand the investment burden of the Government eased to some extent, and on the other, the competition provided by the private sector improved the efficiency of some of the state ventures. The far reaching policy reforms and tax incentives introduced in the budgets of 1978 and 1979 were intended to encourage private enterprise and promote rapid economic growth.

10.04 Progress in the various sectors of the economy reflect positively the impact of these incentives that were introduced to encourage private sector activity. Paddy output has continued to increase as the role of official intervention in purchasing and distribution has declined. To further encourage this response, the guaranteed paddy purchase price has recently been raised from Rs. 40 per bushel to Rs. 52.50 per bushel. Although this floor price is below the current free market price, it is intended to convey to the cultivator the Government's commitment to preserve an incentive price so as to foster the increased use of fertilizer and modern technology. The Government's confidence in the efficiency of the private sector has been confirmed as its operating margins have been lower than those of official institutions allowing higher prices to the producer and lower prices to the consumer. Currently several projects designed to improve the milling capacity and the quality of rice supplies are being implemented. With a view to the future and to further improving milling satndards, consideration is being given to lifting the ban on export of rice.

10.05 The production of almost all items of subsidiary food crops increased in 1980. Great importance is attached to the development of these crops, both for the benefits it will provide in diet and income as well as for the improvement it implies for the balance of payments. From January 1st, 1981 the floor prices of these crops have been increased again reflecting the continued provision of incentives to growers. This sector has much potential for rapid growth and further expansion is expected in these crops and their processing together with the growth of related areas in livestock development, as much scope remains for the rapid growth of poultry, pigs, goats, dairying etc. Besides small-holder and small farm development, there is room for large-scale investment in these areas including foreign investment. Major developments are expected in sugar and sugar processing and the dairy sector which will take into consideration the improvement and development of the small holder cultivators as well.

10.06 The tree crop sector continues to offer great challenges to policy. This sector accounts for 13 per cent of GDP, over 50 per cent of exports and provides a major share of employment. Therefore, satisfactory developments in this sector are vital to the overall health of the economy. While improvements in the public sector are being instituted, it has to be noted that 33 per cent of tea production, 77 per cent of rubber and almost 95 per cent of coconut production is in the private sector. The importance of increasing management efficiency and productivity in the tree crop sector cannot be over emphasised. The Government has therefore made certain institutional changes in the plantation sector with a view to improving its efficiency.

10.07 In the manufacturing sector, Government has made considerable progress in creating a climate favourable to investment. A fundamental tenet of this policy has been that the manufacturing sector should become competitive by international standards; tariff policy has been influenced by this consideration. At present, the tariff structure is being reviewed and it is the intention of Government that the policy of promoting international competitiveness, and thereby providing benefits to the people, will be continued.

10.08 Other sectors in which the private sector has played an important role in the past are in housing and the service sectors of tourism, trade and transport. While these sectors will continue to grow, much is expected of the private sector in the productive areas of the economy of manufacture and agriculture and in promoting exports. Much also remains to be done in improving trade practices, and freight benefits, increasing added value to output and exports through further processing, packing, bagging, blending etc. and expanding markets.

10.09 The level of private sector participation in national investments had been of the order of 50-55 per cent during the period 1970-76. This was due to the low level of capital formation in the state sector during this period. In real terms there was a decline in the levels of investment in both the state and private sectors up to 1973 and a slow recovery up to 1976. In the period 1977-1979 although the share of the private sector declined, there has been a steady and significant growth in real terms. The relative shares are shown in the table below.

TABLE 10.1

DOMESTIC CAPITAL FORMATION 1970-1980

(In Rs. Million at Current Prices)

	1970	1972	1973	1974	1975	1976	1977	1978	1979	1980 Provisional
1. Total	2589	2638	2528	3735	4140	4896	5559	8554	13527	24466
2. Government Sector ..	608	830	654	1474	1503	1970	1855	2723	3744	7690
3. Public Corporations ..	514	363	489	384	466	493	772	2002	5274	7157
4. Private Sector ..	1467	1445	1385	1877	2171	2433	2632	3829	4509	9619
5. 4 as % of 1	57	55	55	50	52	50	47	45	33	39

Source: Central Bank of Ceylon.

The lower share of the private sector during the period 1977-1979 is a reflection of the massive infrastructure and construction programmes financed by the State. The projected share of private investment for the medium-term period 1981-1985 is shown in Table 10.2.

TABLE 10.2

INVESTMENT 1981-85

(In Rs. Billion at Current Prices)

	1981	1982	1983	1984	1985	1981-85
1. Total	25.5	30.1	33.2	37.2	43.3	169.3
2. Private Sector ..	10.9	11.6	14.1	18.5	24.6	79.7
3. Share of Private Sector ..	43	39	42	50	57	47

10.10 For the period 1981-85 the total investment is estimated to be Rs. 169 billion of which the private sector share will be nearly half. By 1985, it is expected that the private sector would provide the lead in investments. Once stable foundations are laid for sustained economic growth the burden on the public sector will decline relative to the contribution of the private sector. In the short term, however, it has not been possible to curtail the public sector share any further owing to the very heavy demands on resources for large committed programmes and essential infrastructure development in irrigation, power, telecommunications, highways and transport, without which the private sector cannot expand and move forward.

10.11 With a view to promoting private investment in specific areas, the Government has established a number of institutions and agencies. These are the Greater Colombo Economic Commission (GCEC) charged with the administration and promotion of investment in the Investment Promotion Zones (IPZs), the Export Development Council serviced by a Board to promote exports; the Foreign Investments Advisory Committee (FIAC) in the Ministry of Finance and Planning for promotion and approval of all foreign investments outside the Zones and Local Investments Approvals Committee (LIAC) in each of the Ministries of Industries and Scientific Affairs, Fisheries and Textile Industries.

10.12 In addition to the general economic policies surrounding exchange rates, imports, and payments liberalisation and the lifting of price and other administrative controls, a number of specific incentives are applicable to investments within the GCEC area. These include a tax holiday up to a maximum of 10 years, the period of tax holiday depending on the employment potential, net foreign exchange earnings etc. of the project; a further concessionary tax period following the tax holiday; duty free imports of inputs and equipment; exemption from taxes on emoluments of foreign personnel attached to the project and on all dividends paid to non-resident share-holders. Resident shareholders are also exempt from taxes on dividends paid out of exempt profits during the tax holiday or within one year thereafter.

10.13 Equally attractive incentives have been provided for industries outside the GCEC area with or without foreign collaboration.

10.14 In recognition of the key role of exports in the economic development strategy of the country, the Government has adopted a number of policies and measures to create a favourable climate for the production and marketing of exports. However, in a country which has a long way to go in diversifying its production base for exports, the improvement of the general climate for exports cannot, by itself, motivate the business sector to invest in and venture into the export field, which is both risky and unattractive from the point of view of return on investment in the initial development stage, in comparison with selling in a protected home market. Therefore, an Export Development Council of Ministers with an Export Development Board has been established to design export policies and programmes. It gives special export incentives, on a selective basis, to productive sectors that are important for the national export effort in order to help them in the initial development stage.

10.15 In addition, the Central Bank provides re-financing to the Commercial Banks, the National Development Bank and the Development Finance Corporation of Ceylon, to enable them to provide medium and long-term loan finance (3 to 15 years) on concessionary terms to export projects approved by the Export Development Board, to assist them to build up export production capacities. The loan finance, which could go up to Rs. 30 million per project, is provided at 13 per cent interest and carries a grace period of up to three years. A special incentive has also been introduced for the procurement of raw materials for the manufacture of jewellery for export and for encouraging gem exporters to enter into the jewellery industry. Exporters of both gems and jewellery are given import licences to the value of 15 per cent of the f.o.b. price of their exports to enable them to import a number of items that are on the restricted list of imports, viz. gold, silver, platinum, diamonds and other precious stones, which are needed by the jewellery export indsutry.

10.16 Steps have been taken to ensure the supply of raw materials to the jewellery export industry at internationally competitive prices. Machinery required for pilot projects for demonstration purposes, or for the training of skilled workers, is purchased and leased to the product associations which have been formed under the aegis of the Export Development Board. Steps have been taken to alleviate discriminatory freight rates that hinder the export of processed and manufactured products. Financial assistance has also been given for launching selling missions, for carrying out test marketing exercises and for participaton in specialised trade fairs. Apart from these export incentives and incentives to foreign investors, a major programme has also been launched for the development of viable small and medium-scale domestic industries.

PART II

SECTORAL PROGRAMMES AND PERFORMANCE

PART II

SECTORAL PROGRAMMES AND PERFORMANCE

11.01 The sectoral programmes reflect largely the overall economic and social priorities of the Government and are intended to achieve the objectives of rapid economic growth with increased output and employment and assist in the progress towards stability in the balance of payments. Special steps have also been taken to safeguard the living standards of the poor and maintain and improve on the advances already made in the fields of education, health and social welfare.

11.02 As a result of the Government's determination to match investment with projected resources, some rephasing of the sectoral programmes has become necessary. The rolling programme framework has provided the mechanism to make these adjustments. The 1981-1985 sectoral programmes have to take into account not only the cost escalations of lead projects but also the fact that they are already in various stages of implementation. In drawing up the revised sectoral programmes the emphasis has fallen on the export sector, production oriented programmes and essential economic and social infrastructure which is necessary to expand the base for productive activity. These infrastructure investments are seen as complementary to the efforts of the private sector—examples are the investments in irrigation and land development, power and telecommunications.

(A) THE LEAD PROJECTS

12. The Accelerated Mahaweli Development Programme

12.01 The Accelerated Mahaweli Development Programme consisted originally of the construction of five reservoirs and the development of irrigation facilities in Systems A, B, C and D covering an extent of approximately 140,000 ha. The basic studies and the preparation of plans, designs and estimates were all completed at the end of 1979 and during the early part of 1980. The Implementation Strategy Study carried out by NEDECO was also completed in the latter half of 1979. One of the principal recommendations of the NEDECO report is that the water resources of three reservoirs viz: Victoria, Kotmale and Maduru-Oya would be sufficient to irrigate the areas available for development in systems A, B, C & D in addition to supplementing the water supplies to existing developed lands in these areas. NEDECO also recommended alternative methods of transbasin diversion to utilise the balance water resources of the Mahaweli. The areas in which the balance waters of the Mahaweli could be utilized and the method of transbasin diversion in such areas is the subject of the study financed by a Technical Assistance Grant from the World Bank. Following the recommendations of NEDECO, and because of financial and other resource constraints in implementation, the programme has been restricted to the completion of three reservoir headworks, namely, Maduru Oya, Victoria and Kotmale during the period 1981-1985. These will add 410 MW of power to installed capacity. Construction of the fourth reservoir (Randenigala) will begin in 1982 and the smaller Rantambe Project in 1985. When these two projects are completed the installed capacity of power will increase by another 175 MW. The programme also includes the provision of irrigation facilities, and the agricultural development of approximately 50,000 ha. with commencement of further development work which will spill over to the period after 1985. The total investment envisaged on the projects for the period 1981-1985 is Rs. 28990 million representing 38 per cent of the total budgetary public investment for the period.

12.02 The growth of power and energy demand over the past two years has been high and is substantially above the various projections made by NEDECO and individual consultants. With the high cost of thermal generation, the need to develop the hydropower potential of the Mahaweli Programme both in order to meet the growing demand and to avoid the need to operate the gas turbines, cannot be over-emphasised.

12.03 The Victoria project which was estimated by the Consultants to cost £ 135 million is being financed by a grant of £ 100 million by the Government of the U. K. All contracts for civil works, including the reservoir, tunnel, and power station, as well as for the electro-mechanical and hydro-mechanical equipment have been awarded. The total value of the contracts awarded is Rs. 3,700 million. To meet the anticipated deficit in the foreign exchange financing of the project, financing by the Export Credit Guarantee Department of the U.K. in a sum of almost £ 20 million has been negotiated to meet the cost of the electro-mechanical equipment and part of the cost of the hydro-mechanical equipment. The civil contractors have installed all construction equipment at the site. Progress has been satisfactory though slightly behind schedule. The project is scheduled to be completed by mid-1985 and will have an installed capacity of 210 MW of power and provide irrigation facilities to about 50,000 ha. of new lands in Systems 'B' & 'C' through the Right Bank Transbasin Canal and the Ratkinda-Maduru Oya Link Tunnel.

12.04 The Maduru-Oya reservoir with a storage capacity of approximately 550 million cubic meters is primarily an irrigation reservoir for the development of System 'B'. It derives its water resources mainly from the Minipe right bank transbasin canal and the Rathkinda-Maduru Oya link tunnel and also from its own catchment. The project is being financed by Canada with a loan of Canadian $ 76 million. The consortium of Canadian contractors, to whom the contract for the construction of the reservoir has been awarded in a sum of Rs. 1340 million, has installed all construction equipment and satisfactory progress has been made in the construction. The expected date of completion is early 1983. About 8,000 ha. of new land immediately under the tank could be brought under cultivation in 1983 from the direct waters of the Maduru Oya reservoir.

12.05 Good progress has been made on the Kotmale Project by the contractors on the preliminary works and on the underground works for which contracts have been awarded. Certain geological problems connected with the reservoir, including unstable soil and rock masses in the reservoir periphery and cavernous limestone in the reservoir bed and below the dam site caused the dam site to be shifted further downstream. Considerable cost escalation and financing gaps led to a decision to reduce the capacity of the reservoir substantially, with provision for later augmentation. Kotmale will have an underground power station with an installed capacity of 200 MW. With the reduction in the capacity of the reservoir in the first stage, only two units of 70 MW each will be installed.

12.06 The final plans, designs and estimates for the Randenigala/Rantambe reservoirs have been completed with technical assistance from the Federal Republic of Germany. These projects are required by 1988 at the latest to meet anticipated power demand. However, earlier completion by the end of 1986 will result in considerable savings in foreign exchange which would otherwise be required for thermal generation.

12.07 The Minipe right bank transbasin canal, with a capacity of about 67 cubic meters per second, will be the main conveyance canal for the waters from Mahaweli to meet the requirements of System'B'and System'C'. The diversion barrage across the Mahaweli-ganga at Minipe and the first three kilometers of the canal are being constructed by a state organisation and satisfactory progress is being made. The contract for the balance stretch of the canal, approximately 27 kilometers in length, has been awarded after international bids, to an Italian construction firm and satisfactory progress is being made. The regulating reservoirs of Ulhitiya and Rathkinda at the end of the transbasin canal are being constructed by a state organisation and a local firm respectively.

12.08 The feasibility studies for the downstream irrigation development under System 'C' were carried out under U.K. Technical Assistance by a consortium of U.K. consultancy firms. Based on their recommendations, a detailed report was prepared for Zone 2 covering approximately 4000 ha. and presented for EEC financing in a sum of US $ 22 million which has been approved. Work has already commenced on the irrigation and road infrastructure as well as the required buildings. The necessary field organisation has been set up and 1500 worker-settlers were brought in to this area in 1980 and a further 2,500 worker-settlers will be brought in during the course of this year. In regard to the development of the balance area in System 'C' comprising Zones 3 to 6 covering an irrigable area of approximately 19,000 ha., about 16,000 ha. will be developed for two season cultivation of rice; about 1,500 ha.

will be developed for a rotation of rice and upland crops and another 1,500 ha. under perennial irrigated crops. The project has been appraised by the World Bank and requests for co-financing have been made to the Governments of Japan and Kuwait. The estimated cost of development of Zones 3 to 6 inclusive of provision for price escalation is Rs. 3,600 million.

12.09 The feasibility report for System 'B', prepared by a Canadian consultancy firm was financed by the Government of Sri Lanka. The downstream development is being partly financed by USAID, and a loan agreement for a sum of US $ 10 millon has been signed. A contract has been signed with a US consultancy firm for the preparation of detailed plans and designs of the main irrigation distributory system and the agricultural development of a pilot area covering approximately 4,000 ha. Meanwhile, construction work on the roads and buildings is being proceeded with.

12.10 From 1983 onwards, the Mahaweli Programme will bring a steady and increasing stream of output annually. A major cause for concern however, is the heavy and unprecedented escalation in the costs and consequent problems of financing. Thus, the generous financial support pledged earlier by numerous governments and international agencies to cover the foreign costs of the programme is now inadequate. It is estimated that on the four reservoirs alone, the shortfall in foreign cost financing for the period 1981-1985 will be about US $ 280 million. Details of total cost, phasing of expenditures and financing are given in the tables in Part III. The firm and continued support of the international community would be necessary for the Government to bring this programme to fruition.

13. The Housing and Urban Development Programme[1]

(*a*) *Housing*

13.01 Public sector housing construction achieved good progress during the period 1978-1980. By the end of 1980, 20,841 housing units had been completed as follows: 5797 urban housing units under the direct construction scheme, 8699 units under the aided self-help (ASH) scheme including model villages and houses for the fisheries sector, 5880 electoral houses and 465 units under slum and shanty upgrading. In addition, another 39,556 housing units were in different stages of construction; 16,750 units under urban direct construction, 17,766 units under the aided self-help scheme and 5040 under the electoral housing programme.

13.02 Several steps have been taken by Government to check the rapid cost escalation in the housing and urban construction sector. The system of negotiated contracts has been replaced with the normal system of competitive tendering for all construction projects.

1. For convenience of presentation the water supply programme handled by the same Ministry is also discussed in this section although it is not part of the lead projects.

A new scheme for determining architectural and consultancy fees, based on a sliding scale, has been evolved and agreed upon with the respective professional bodies so as to provide incentives for lowering construction costs. An IDA assisted Construction Industry Project designed to increase the supply of trained construction skills for the sector and to set up an equipment leasing company enabling contractors to acquire equipment at reasonable cost, has commenced. In addition, the initiatives taken by the Building Materials Corporation and the proposed Building Materials Advisory Centre at the Industrial Development Board under the Small and Medium Industry Project, are expected to stimulate the supply of building materials.

13.03 The entire housing programme has witnessed a marked shift in emphasis towards the aided self-help schemes. About half of the direct construction urban programmes, where unit costs are high, has been postponed. In addition to this change of emphasis, the Government has launched a programme to upgrade slum and shanty dwellings in the City of Colombo and other urban areas. During the year 1981, a total of 6255 slum and shanty units will be upgraded at a total cost of Rs. 32.5 million.

13.04 The total investment in the housing programme during the period 1981-1985 is estimated at Rs. 5116 million, from the government budget, and is directed towards easing the housing shortage in a manner which would place a diminishing burden upon the government budget over time. The most important step in this direction is the movement towards self-financing in the case of middle and lower-middle income housing schemes which are under construction or completed by the National Housing Development Authority (NHDA). The NHDA has initiated a programme to sell some housing units on an outright basis and the others on a down payment plus instalment basis so as to recover costs and provide a reasonable rate of return. In the case of low income housing, steps have been taken to charge more realistic rentals.

13.05 Initiatives have also been taken by the NHDA to shift from direct construction towards a system which could stimulate house building activity through private developers. The NHDA will acquire land, develop such land and sell to private developers on an undertaking that they would construct houses for sale. They are required to construct houses on approved plans, make no profits on land already developed, but derive profits only from the construction and sale of houses. Several tax incentives and concessions have been offered by the Government in this area of activity.

13.06 In the ASH programme, emphasis has fallen upon cost reduction through greater use of local building materials and development of designs more appropriate for rural living conditions. Rather than the State providing the entirety of building materials as in the past, with the allottee providing only the labour, the materials supplied by the State under the revised scheme will be confined to cement, bricks and tiles with the balance materials being obtained by the allottee from local sources through a cash allowance made available to him. The cost per unit incurred by the State could thus be reduced from the present level of Rs. 22,000 to Rs. 14,000 under the revised scheme.

(*b*) *Urban Development*

13.07 The urban development programme, based on the Greater Colombo Master Plan, envisages a number of programmes relating to land reclamation and drainage, development of transport infrastructure, land clearance, resettlement, physical planning in connection with the establishment of the investment promotion zones and the shifting of the parliamentary and administrative capital to Kotte.

13.08 A large part of the programme is to be handled by the private sector—mainly the Echelon Square development, Lotus Centre development and several new hotel development projects in the city.

13.09 Budgetary provision for urban development in the Investment Programme is limited to only the Kotte Parliamentary Complex which is scheduled for completion by the end of 1981. The other public sector projects under this programme, namely the two administrative blocks of 500,000 sq. ft. each at Kotte, St. John's Fish Market, the Pettah market complex and the Orugodawatte stores complex are to be financed by the sale of debentures.

(*c*) *Water Supply*

13.10 The task of providing safe drinking water and better sanitation has received increased emphasis since 1977. The total investment proposed for this sector in the period 1981-1985 is estimated at Rs. 3500 million and represents a three-fold increase over that envisaged in the 1979-1983 programme. There will also be room for admitting new projects in 1985.

13.11 The water supply and sanitation sector depends heavily on direct Government involvement in the preparation and implementation as well as in the operation and maintenance of projects. The Government has, therefore, taken a decision to charge water rates for domestic and commercial connections, while giving a subsidy to the lowest income groups who consume water through standpipes. This would enable the Water Supply & Drainage Board to cover the operational and maintenance costs of water supply schemes and to reduce the existing high rate of wastage. The metering programme included in the first Water Supply Project for Colombo has fallen behind schedule due to a number of reasons, mainly the delays in the supply of meters. These difficulties have now been overcome and metering in two Urban Council areas in the Colombo District, namely, Kotte and Kolonnawa, has already been completed. The metering programme for the Colombo Municipality which started in 1980 will be completed in two years. Two other Urban Councils, namely

Matara and Kegalle, have already started installing meters while a number of other local authorities have placed their orders for meters. Once the programme is completed, the water supply schemes will be able to cover their operational and maintenance costs.

13.12 The Government is also considering the possibility of involving rural communities in the planning and implementation of sanitation and water supply projects with a view to increasing the cost-effectiveness of such programmes.

13.13 The main programmes that are to be completed during the 1981-1985 period are given in Table 19 in Part III. The World Bank aided South-West Coast Water Supply Project Stage I is progressing on schedule. The work on the Greater Colombo Area Water Supply and Sewerage Project Stage II commenced in March 1981. Under the scheme for the provision of rural water supplies, 207 ground water wells were sunk successfully and pumps have been installed in 127 of these wells. Five piped water supply schemes for the supply of water to small towns have been completed with the assistance of UNICEF in 1980, in addition to 15 other piped schemes financed by the Government's own resources. The programme of water supply schemes under construction includes 31 major schemes, 11 minor schemes and 22 UNICEF assisted rural schemes. In addition, design works on 42 schemes have been completed and these are due to be implemented during the year 1981.

14. The Greater Colombo Economic Commission (GCEC)

14.01 The programmes of the GCEC were intended to be the major plank in the Government's strategy of export-led industrial growth. It envisaged the establishment of Investment Promotion Zones (IPZs) to attract foreign capital and technology for export oriented ventures, to create more employment and output and to enhance the country's foreign exchange earnings. The incentives offered to these firms have already been discussed in Part I Section10. In addition to fiscal incentives, these zones are provided with a wide range of infrastructure facilities such as an air cargo terminal, containerized shipping, modern telecommunication facilities, additional housing, prepared factory sites, utility connections, access roads and other services. Security of investment is guaranteed by legislation.

14.02 The first IPZ has been successfully established in a complex covering about 300 acres adjacent to the Katunayake airport. A second IPZ at Biyagama located on 400 acres near the Kelani River is to cater to heavy and water consuming industries. Work on this project has commenced this year.

14.03 By end December 1980, 137 industries with a total investment of Rs. 4037 million had been approved under the Katunayake complex. Of these, 57 firms had signed agreements and twenty three had already commenced commercial production and exports. Gross exports from these firms increased from Rs. 152.1 million in 1979 to Rs. 505.3 million in 1980, while factory employment has risen from 5884 at the end of 1979 to 10581 in December 1980.

(B) OTHER SECTORAL PROGRAMMES

15. Agriculture

15.01 Outside the Mahaweli Programme investment in agriculture makes up 22 per cent of total budgeted investments for the period 1981-1985. When the agricultural components of the Mahaweli Project, the Decentralized Budget and the District Development Projects are included the share of agriculture increases to 54 per cent. The main investments in agriculture outside the Mahaweli are in plantations 4 per cent, field and minor export crops 4.4 per cent, irrigation 9 per cent and fisheries and animal husbandry 2 per cent.

(a) The Plantations

15.02 Budgeted investments in the plantations sector for the period 1981-1985 total Rs. 2,748 million and represent an 88 per cent increase over the investments envisaged earlier in the 1980-1984 programme. In addition, considerable extra-budgetary investment from cess funds and the resources of the state corporations is expected.

15.03 Investment options in tea, rubber and coconut have been examined in depth and investment priorities and strategies for the tree crops have now been identified. The medium-term investment programme for the tree crop sector reflects these investment priorities and strategies. Hence the investment programme would remain unchanged for the next five years except that the level of investment would be increased depending on the availability of foreign aid and favourable changes in the world prices for these commodities.

15.04 The main objective for the plantation sector for the next five years would be to reverse the declining trend in production and increase output in the short term as well as the long term and improve the quality of manufacture in order to maximise the foreign exchange earnings from these crops.

15.05 Complementary to the above objective would be the objectives of;

— maintaining the present employment levels in the sector by maintaining producer margins at remunerative levels;

— optimising land utilisation by diversifying uneconomic tea, rubber and coconut land into other subsidiary crops and bringing new land under tea, rubber and coconut in areas suited for these three crops; and

— improving the living standards of the estate labour by upgrading housing and other facilities.

15.06 Realization of the production potential in the tea, rubber and coconut sectors would be influenced during the next few years, by the past neglect of maintenance and investment, weather conditions, world prices, cost of production and policy measures that would affect the producer margins in the future.

15.07 Assuming that the effects of past neglect would be minimised by the field rehabilitation measures envisaged and that world prices would stabilize at present levels while weather would be normal, the production of tea is projected to increase to 210 million kg. in 1985 and coconut production is projected to increase from 2026 million nuts in 1980 to 2465 million nuts in 1985. Rubber production would decline, owing to replanting and is projected to be approximately 145 million kg. in 1985.

15.08 Exports of tea are projected to increase from 185 million kg. in 1980 to 194 million kg. in 1985. Rubber exports are projected to decline initially but recover to a level of 134 million kg. at most by 1985. It is unlikely that coconut exports would increase in quantity during the medium term as local consumption is expected to increase with the increase in population.

15.09 The main strategy for increasing production in the tree crop sector is the rehabilitation of existing plantations by higher levels of fertilizer application, soil conservation and other cultural practices, accelerating replanting and infilling and by encouraging new planting of tea, rubber and coconut in areas most suited for these crops.

15.10 As important as increasing output is the need to manufacture quality products to remain competitive. On the processing side, it is proposed to upgrade the existing capacity by providing new machinery and infrastructure and installing new capacity where necessary and rationalising available capacity for greater efficiency. The small-holders could contribute to quality by resorting to better cultural practices.

15.11 In upgrading the living standards of estate labour, emphasis would be on supplying amenities like water, sanitation, ventilation, electricity, etc. The strategy is to renovate existing line rooms and build low cost housing units using local materials.

15.12 A substantial role is expected to be played by the small-holder sector (holdings less than 50 acres) which owns 35 per cent of the total tea acreage, 77 per cent of rubber, and 95 per cent of coconut. In view of the large acreage in small-holdings which are almost entirely privately owned, it is very important that investment in the private sector be maintained at adequate levels in order to achieve overall production and development targets. A substantial part of the increase in output and the effort at rehabilitation is expected to come from the small-holder sector.

15.13 In order to encourage the small-holders to rehabilitate their lands, financial incentives will continue to be offered for replanting, infilling, new planting and intercropping. These subsidies would be given in the form of outright grants partly in kind. In the case of tea and rubber, these subsidy programmes will be financed from industry cesses while the subsidy programmes for coconut development would be financed by the government budget.

15.14 In addition to the development efforts through subsidy programmes, selected high potential areas will be completely rehabilitated as integrated projects, with foreign assistance. Resource constraints at present compel the Government to rely increasingly on foreign aided projects of this nature to develop the plantation sector. The tree crop areas falling within the on-going and proposed integrated rural development projects will be also rehabilitated under the respective projects.

15.15 The public investment programme for the tree crop sector for the period 1981 to 1985 consists of the following development projects and programmes:-

- the Tea Rehabilitation Project I, to rehabilitate 18,000 ha. and 42 factories and provide 13,300 housing units in the Maskeli Oya region with IDA assistance;

- the Integrated Tea Development Project, to rehabilitate 7,380 ha. and 18 factories in the Badulla region, build 3 new factories for small-holders in Hiniduma and provide 3,420 housing units with ADB assitance;

- the Tea Rehabilitation Project II, to rehabilitate 27,129 ha. in Kotagla, Agrapatana, Galle and Matara, modernize 125 factories and provide 5,900 housing units with IDA assistance;

- the Small-holder Rubber Rehabilitation Project, assisted by IDA to replant 18,000 ha. in Kalutara, Ratnapura and Kegalle districts and to rehabilitate 67 group processing centres and establish 50 new centres in the project area;

- a Coconut Rehabilitation Project with ADB assistance, to replant 9,200 ha. and underplant 3,000 ha. outside the coconut triangle and to provide fertilizer credit, storage capacity and upgrading of processing facilities;

- rehabilitation of cyclone affected areas. This project is to replant 11,200 ha. and develop annual crops on 52,000 ha;

- a subsidy programme for coconut to rehabilitate annually 7,100 ha., replant 1,400 ha., new plant 1,700 ha. and to inter-crop annually 64 ha. with pepper, 30 ha. with cocoa and 90 ha. with coffee;

- a subsidy programme for cashew to plant 200 ha. annually and;

- expansion of the acreage under mulberry by 1500 ha. by 1985.

15.16 In addition to the above programmes a substantial part of the development in the tree crop sector will be financed from industry cesses and profits of the two corporations and the private sector. These development programmes are:

— replanting 16,790 ha. of seedling tea with high yielding V.P. tea;

— planting 6,070 ha. of new tea land in suitable areas;

— infilling vacancies to increase bush density in 15,239 ha. of tea;

— modernising factories, providing labour cottages, health facilities and improved transport on estates and diversifying uneconomic tea by the state sector at a total cost of Rs. 1,848 million during the next five years; and

— replanting of 15,000 ha. of rubber in 1981 and thereafter, 17,000 ha. each year.

15.17 Subsidies amounting to approximately 80 per cent of the cost are given in respect of all these projects and for development programmes in the coconut sector. The balance investment is expected to be generated in the private sector.

15.18 Although a comprehensive investment programme is available for the plantations sector, a number of factors could impede the successful implementation of the programme. Falling producer margins caused by adverse changes in world prices for these commodities and rising costs of production would be a major constraint on rehabilitation. Past performance in respect of replanting and rehabilitation shows a strong co-relation between rising prices and the rate of replanting and rehabilitation. This would be particularly true of the small-holder producers.

15.19 Performance in the tree crop sector has been disappointing in the past three years. In 1980, production fell below the 1979 levels in all three crops. The prices of tea improved enabling export earnings to be maintained at about the 1979 levels, while export earnings from the other two crops declined. The major part of the investment in 1979 and 1980 was expected to come from the private sector and from retained profits of the two state corporations. Monetary incentives in the form of subsidies were offered to producers to encourage replanting and investment in factories. Despite the incentives, the volume of investment fell short of the planned levels by about 66 per cent. Therefore, action will be taken to carefully monitor costs of production and prices on a continuing basis. Also institutional support to the small-holders is being strengthened. Steps have already been taken to strengthen the extension services in all three crops by increasing the numbers of extension officers, regionalising the organizational set-up and expanding nurseries, fertilizer storage capacity and supply services.

(*b*) *Minor Export Crops*

15.20 The export earnings from the minor export crops, comprising mainly spices and beverage crops, showed a considerable increase over the last three years. Foreign exchange earnings from these crops improved from a level of Rs. 462 million during 1978 to Rs. 592 million during 1980, implying an increase of about 28 per cent. Most of the minor crops are grown in small holdings as mixed gardens or intercrops and,hence, no reliable data on acreage or production is available. Nevertheless, judging by the volume of exports and the level of internal consumption, indications are that production of these crops had increased slightly.

15.21 Although the market prospects for most of these crops (particularly, coffee, cocoa, pepper, cardamom, cloves and essential oils) are quite favourable, supply is constrained by the limited expansion in acreage, poor management standards and the age of plantations. In recent years, the drought (during 1979-1980) has also contributed to low production levels. This calls for a major effort at replanting / new planting and achieving higher productivity.

15.22 The Government has taken a number of steps recently to impove producer incentives. Export duty on all minor export crops other than cinnamon was removed in 1978, while subsidies for new planting and replanting were significantly increased. In the case of coffee and pepper, the subsidy was raised from Rs. 300 per acre to Rs. 2,750 and Rs. 2,500, respectively. In the case of cocoa, the subsidy was raised from Rs. 900 to Rs. 2,750 and for cardamom to Rs. 1,500. A new subsidy scheme covering cloves and nutmeg, at the rate of Rs. 1,000 per acre, was also introduced. As a result of these measures, farmers' interest in developing these crops has increased considerably and the extent covered under the various subsidy schemes increased from 2,500 acres in 1977 to 4,800 acres in 1980. To further promote development, the Government introduced a special programme to spread these crops to small holdings and home gardens towards the end of 1980. Under this programme, free planting material and a cash subsidy is being provided to holdings of 1 /8 — 1 /2 acre in six districts. The overall impact of these programmes, is expected to be felt in 3-5 years.

15.23 Outside the subsidy programmes, the National Agricultural Diversification and Settlement Authority (NADSA) has a project to bring 20,000 acres of marginal tea and rubber lands under minor export crops, livestock farming and forestry in the Nilambe-Atabage and the Gurugoda-Kudu Oya catchments. The project started in 1978 with the assistance of IDA and is expected to be completed by 1981. So far, more than 8,000 acres have been planted with minor export crops (mainly pepper, cloves, coffee and cardamom) in pure stands as well as mixed gardens. In addition, a national nursery for these crops has been set-up at Rajawella. Farmers are also given training in the cultivation of minor export crops and provided support for the development of home gardens.

15.24 The Investment Programme for minor export crops places high priority on the rehabilitation of old and neglected plantations,particularly under cocoa, cinnamon, cardamom and citronella and the expansion of acreage under crops with a high export potential, i.e. cardamom, coffee, pepper and cloves. Research, extension, supply of planting material, processing facilities, credit facilities, and other services would be further strengthened and improved to achieve the production and development goals.

15.25 In additionto the IDA Project, being implemented by the NADSA,and the national subsidy programmes carried out by the Department of Minor Export Crops, a substantial part of the programme consists of the minor export crops components of the Integrated Rural Development Projects in three districts, namely, Kurunegala (8,000 acres), Nuwara Eliya (1,500 acres) and Matale (7,900 acres), work on which has already commenced. These programmes also make provision for 10 nurseries to improve the availability of planting material for minor export crops. The programme for the development of minor export crops will be further expanded under the IRD Projects for Badulla and Hambantota districts. In all, 15 nurseries and about 23,000 acres would be developed under the IRD programmes. The total acreage to be developed under these crops by 1985, would be around 35,000 acres.

(*c*) *Field Crops*

15.26 The principal field crops are paddy, minor food crops (also referred to as subsidiary food crops) and sugar cane.

15,27 Paddy is the most important field crop in the peasant sector. Rice is the staple food of the people and nearly 8.2 per cent of the total land area of the Island (which is 65,609 sq. km.) was under paddy in 1980. This represents 18 per cent of the cultivable land in the country. About 74 per cent of the paddy holdings are below one hectare in extent. Increasing paddy production to the point of self-sufficiency would not only eliminate foreign exchange expenditure on food imports but would also generate additional incomes in the rural areas and absorb large numbers of the rural unemployed.

15.28 It is expected that Sri Lanka would achieve self-sufficiency in rice by the mid 1980s. Government has intensified the services provided by the Extension Division of the Department of Agriculture, increased the supply of improved seed material, subsidized fertilizer costs and streamlined the distribution network, helped increase the availability of farm power for land preparation, restored or rehabilitated village tanks and other minor irrigation works, strived to improve water management practices in major irrigation schemes and increased the guaranteed price for a bushel of paddy to Rs. 40/- in 1977, Rs. 50 /-in 1980, and Rs. 52.50 in 1981. As a result of these measures and the added impetus to production given by high open market prices, the average yield per hectare went up from 108 bushels in 1976 to 138 bushels in 1980 and total production reached an all time record level of 102.2 million bushels during 1980. This compares with a production of 85.4 million bushels in 1977.

15.29 Government's response to the rising cost of production (originating from high fuel costs, high wage rates and fertilizer prices) by raising the guaranteed price for paddy from Rs. 40 /- to Rs. 52.50 per bushel, coupled with the pricing of imported rice and flour on a cost plus basis, has served to improve producer margins and meet farmers' price expectations. The Government will continue to maintain price incentives for paddy farmers through a continuous review of the guaranteed floor price and by proper pricing of essential food imports. Investment in the paddy sector during the 1981 to 1985 period is designed to further broaden the production base and to increase productivity. The irrigation development programme is expected to expand the acreage under paddy significantly and also to raise cropping intensity over the next 5 years. The major elements of this programme are the development of the Mahaweli Ganga Diversion, 7 other Major Irrigation Schemes, the rehabilitation of village tanks and other irrigation facilities under the Integrated Rural Development Programme and the Decentralised Budget and the IDA financed Village Tanks Rehabilitation Project. In addition to these, a number of special water management projects have been incorporated in the Investment Programme. These projects would also give emphasis to the adoption of proper cultivation calendars, the strengthening of agricultural services and the improvement of institutional and research support for agriculture.

15.30 It is expected that the support extended by the Government to paddy production through the provision of credit facilities, agricultural insurance, high yielding seed, extension services, research and training and the promotion of fertilizer use, would help to maintain the upward trend in production.

Subsidiary Food Crops

15.31 The subsidiary food crops include coarse grains (maize, sorghum and finger millet), pulses (green gram, black gram and cowpea) and tubers (mainly, manioc and sweet potato).

15.32 The area under these crops, which had shown a continued decline in recent years, registered a marked increase in 1980. Except for Bombay onions, manioc and sorghum all other minor food crops showed increased acreage and output. Also fertilizer usage increased during the year. These welcome changes may be attributed to the endeavours of the Government to arrest the past trends by:

(*a*) The upward revision of the retail price of wheat flour to bring it in line with the imported cost, the increase being from Rs. 1.32 to Rs. 5.30 per kilo;

(*b*) The introduction of guaranteed floor prices for 12 products (maize, sorghum, soya bean, black gram, green gram, sesame, ground nut, tumeric, chillies, red onions, Bombay onions and cow pea) and by reviewing them from time to time on the basis of the cost of production and market conditions;

(c) Providing marketing support through Paddy Marketing Board's purchasing operations during the harvest season;

(d) Reviewing import and pricing policies in respect of chillies,onions, potatoes and pulses;

(e) Regularising encroachments on *chena* lands with a view to promoting settled agriculture; and

(f) Strengthening research, extension and seed production programmes for these crops.

15.33 In addition, a district level Dry Zone Agricultural Project has been launched at Anuradhapura. It has emphasised the production of subsidiary food crops, chiefly coarse grains and pulses. The project is expected to establish settled agriculture on 50,000 acres of highland. Special attention will be paid under this project to improving cropping systems and also for improving the marketing system.

Sugar Cane

15.34 Sugar cane is cultivated on a plantation scale to feed the sugar mills at Hingurana and Kantalai and is also grown by peasants in small holdings for the production of jaggery and syrup.

15.35 Sugar production at Hingurana and Kantalai Factories in 1980 was 26,300 tonnes. This was 43 per cent above the 1979 production level of 18,600 tonnes but was still 35 per cent below capacity. Much scope still remains for increasing output through higher yields per acre and better extraction rates through improved management practices.

15.36 In order to increase the domestic supply, the Government is encouraging small producers while promoting private and foreign investment by offering appropriate incentives for establishing plantations in the intermediate zone in the Moneragala District. The response from foreign investors has been encouraging. The Investment Programme also provides for a new sugar factory at Sevenagala with a capacity of 26,000 tons and it will be financed with the assistance of the Asian Development Bank.

15.37 As production in the field crops sub-sector is undertaken mainly by the unorganised private sector of mostly small farmers, public investments in the sector will be focussed on assistance to these private farms through research, extension and training, seed propagation, fertilizer storage and supplies, credit and insurance.

Research

15.38 Agricultural research in Sri Lanka,has historically been devoted almost exclusively to paddy. This has changed gradually over the last 15 years. Under the ongoing IDA financed Adaptive Research Project, 8 Regional Research Centres have been set up, and, with the decentralisation of research activity, their scope will be enlarged to include subsidiary food crops, vegetables and fruits. Research programmes will cover farm practices, pest and disease control, development of high yielding varieties of rice and other crops with drought, pest and disease resistant qualities. Water management, zero tillage and weed control as well as crop systems suitable for the various agro-ecological zones will be the other fields of research. The Training and Visits System of extension, in operation under this programme will be strengthened by the establishment of research substations in each district.

Extension and Training

15.39 Islandwide operations under the IDA Project commenced in January 1980. In all, 25 Assistant Directors, one for each district plus another for the Mahaweli 'H' area (with other supporting staff) have been appointed to administer the Unified Extension Service. A satisfactory ratio of extension workers to farm families (1:750) has been established and contact farmers have been selected in most areas. Initially, the extension service will cover rice and other field crops but will be extended in due course to coconut and minor export crops as well. The number of agricultural training centres has been increased to five and the existing facilities are being strengthened to meet the training requirements of the extension staff.

Seed and Planting Materials

15.40 The seed production programme consists mainly of three major on-going projects. They are the Seed Certification Project, Seed Potato Production Project and the Project for Improving Seed Potato. Eight seed processing units have been established under the Seed Certification Project. In addition, a second seed testing laboratory at Mahailluppalama has also been set up. The Seed Potato Production Project is progressing satisfactorily. The quantity of certified seed potato issued to farmers increased from 167,000 cwt. in 1977 to 185,000 cwt. in 1979. In addition, there has also been a lateral spread of seed potato of high quality through selected farmers. A major effort is also being made to produce and distribute vegetable seed and to make available seedlings and other planting materials under the home garden programme.

Fertilizer Storage and Distribution

15.41 The regional warehouse complex at Mahailluppalama has already been commissioned while the one at Weligama will be completed by the end of 1981. Two more complexes are planned for Polonnaruwa and Anuradhapura. These regional warehouses are equipped with storage, mixing and transport facilities. In addition, the Government extends credit facilities to retailers and provides a grant of 30 per cent for construction of small fertilizer stores for retail issues, using West German counterpart funds.

Credit and Insurance

15.42 Credit support is provided to farmers through re-financing schemes. These cultivation loans are available for field crops including paddy. The volume of loans disbursed has, however, decreased in recent years due to a large number of borrowers defaulting and due to the withdrawal of the 75 per cent Central Bank guarantee to commercial banks. With the rise in the cost of cultivation the financing requirements of the sector will increase. This makes the implementation of a relatively more liberal credit scheme necessary.

15.43 A new insurance scheme for paddy cultivation was introduced in 1980. This scheme excludes permanent risk areas and has a premium structure based on the risk factor. The procedure for the collection of premia, the verification of claims and the payment of indemnities has now been streamlined. The revised scheme is expected to eliminate the losses in the operation of the agricultural insurance schemes.

(*d*) *Irrigation and Water Management*

15.44 The irrigation sub sector has to be viewed in close relation to the field crops discussed in the previous section. It is the vital infrastructure required for improving and extending peasant agriculture in the Dry Zone. Therefore, Government places major emphasis on this sub sector. In fact, the development of irrigation (or water resources) for use in agriculture has traditionally dominated public sector investment.

15.45 Besides the Mahaweli Diversion Project which has been discussed elsewhere, the current investment programme provides for works started prior to 1981 and for new projects begun in 1981 with foreign assistance. The programme provides immediate benefits through direct employment on construction work and in the longer term, through additional agricultural production and employment in related services.

15.46 In addition to the building of new irrigation infrastructure, Government also places emphasis on the improved management of water in existing irrigation projects. It has been long observed that there is considerable wastage of water under existing agricultural practices. Improved water management holds potential for early gains in employment, income and production with very little investment. The main objective of water management is therefore, to make optimum use of rainfall and irrigation water and to reduce water losses with a view to raising cropping intensity and crop yields.

15.47 Total investment for the period 1981-1985 in the irrigation sub sector outside the Mahaweli Programme is estimated at Rs. 3,566 million.It is expected that this programme will bring 50,000 acres of new land under irrigation by 1985 and improve irrigation facilities to another 200,000 acres of existing irrigated lands. This does not include the contribution made by small schemes for ground water irrigation and other minor and village tank schemes included under the decentralised (District) budget and the integrated district development projects which have a large irrigation component. These additional investments in irrigation could be estimated at around Rs. 1,400 million for the period 1981-1985 benefitting about 115,000 acres.

15.48 Some of the main projects under the sub-sector are:

(1) *Kirindi Oya Irrigation and Settlement Project*

This project is expected to benefit 20,000 acres of new land and over 11,000 acres of land now under cultivation in the Hambantota district. About 6,000 farm families will be settled on the land which would be brought under irrigation. Although work on this project commenced in 1978 progress has been slow. Organizational changes have been brought about in order to expedite implementation of this project. Foreign consultants were engaged in 1980 to provide management services. The project is now expected to be completed in 1985.It had to be re-phased due to financial constraints and the increase in costs, which was partly caused by the additional work now found necessary. The current estimate of cost is Rs. 1,300 million. The Project is being financed by the ADB, IFAD and KFW; the amount committed to the project by them so far is Rs. 619 million. Further financing of the cost over-runs is being negotiated.

(2) *Inginimitiya Project*

This project, situated in the Puttalam District, is designed to provide irrigation facilities to 1,640 acres of land presently under cultivation and to 4,440 acres of new land on which 1,800 farm families will be settled. The project was started in 1979 but was slow to get off the ground. In 1980 OEEF (Japan) agreed to finance the entire foreign cost (Rs. 143 million). It is expected that the project will be completed by 1985 at a cost of Rs. 309 million.

(3) *Mahadivulwewa Project*

This project,which will be completed this year,will provide irrigation facilities to 800 acres of new land and accommodate 320 farm families. The project situated in the Trincomalee District is financed by a grant of US $ 2 million from the EEC.

(4) *Muthukandiya Reservoir Project*

This project which provides irrigation for 2,000 acres in the Moneragala District is expected to be completed this year. Work on the project was expedited by the use of machinery made available by the Australian Government.

(5) *Gin Ganga Flood Protection Scheme*

This project involves the construction of 17 miles of levees to act as flood protection bunds. The balance work on this project is estimated to cost Rs. 107 million. The project is fully financed by the Peoples Republic of China and is expected to be completed by 1982. An extent of about 13,000 acres will be benefitted by this project. Cultivation within the protected areas has already started.

(6) *Minor Tanks Rehabilitation Project*

This project which is to be financed by IDA envisages the rehabilitation of 1,200 village tanks and anicuts to benefit 80,000 acres at a cost of Rs. 800 million. Work on this project began in 1980. During the period 1981-1985 expenditure will be Rs. 770 million.

15.49 The main projects in water management are:-

(*a*) *Five Tanks Modernization Project*

This project is jointly funded by the UK /ODA (Rs. 143 million) and by the IDA (Rs. 90 million).

The project is in the final phase of implementation. The last of the five tanks will be taken up this year and will be completed in 1982. The project has already benefitted about 9,000 acres and when completed it will add substantially to the productivity of 32,000 acres of land already under cultivation.

(*b*) *Gal Oya Left Bank Water Management Project*

This project is assisted by US AID and is expected to increase cropping intensity in about 60,000 acres. It attempts to institutionalise water management and to enlist the direct participation of farmers. Progress on construction of civil works was slow to begin with but it is expected to gather momentum this year. The entire project is expected to cost Rs. 302 million of which the US assistance would amount to Rs. 153 million.

15.50 Special emphasis will be laid on water management in the minor irrigation works which are to be rehabilitated or restored under the Minor Irrigation Rehabilitation Project and under the ADB assisted Anuradhapura Dry Zone Agricultural Project already discussed in the section on field crops.

15.51 A project to rehabilitate major tanks which are operating below designed capacity is now being studied. It will be modelled on the lines of the Five Tanks Modernization Project and will have features drawn from the Gal Oya Left Bank Water Management Project.

15.52 Institutional and organizational changes brought about to enforce effective water management are already under way. Water Management Committees have been set up for a number of major irrigation schemes. These committees are assisted by officials of the Irrigation and the Agrarian Services Departments in the course of their day to day work. The Agrarian Research and Training Institute is studying the effectiveness of water management practices and the functionnig of these committees. Studies in water management are also being made for the Lower Uva Project with Canadian assistance. It is expected that, when completed, these studies will provide guidelines for further measures to ensure better management of water resources in the field.

(*e*) *Forestry*

15.53 The Island's fast diminishing forest cover, from 45 per cent of the land area in 1956 to about 22 per cent today, has been receiving increasing attention because of its implications for the environment and the demand for fuel-wood and other wood products. After 1977 the annual programme of reforestation has been intensified and expanded from around 16,000 acres a year to about 35,000 acres in 1979.

15.54 The priorities for the forest sector are:

(*a*) Reforestation of all steep, erodible, eroded and denuded lands specially in the montane catchments of major rivers in order to conserve the water and soil resources of the country. This is vital for the success of all river basin development schemes including the Mahaweli Development Programme.

(*b*) The planting of fast growing firewood species, particularly in the abandoned *chenas* of the Dry Zone with a view to improving the supply of fuel-wood for household use.

(*c*) Stepping up the development of forest plantations to meet industrial and other requirements.

15.55 Current on-going projects for reafforestation under the Forest Department are:-

(*a*) The co-operative reafforestation programme which envisages planting about 16,000 acres annually. The performance in 1980 exceeded the set target by 1,500 acres. However,the programme will be reduced in 1981 due to financial constraints. The shortfall will be covered by reafforestation undertaken under the Integrated Rural Development Projects.

(*b*) The afforestation of derelict tea and rubber lands which achieved its target of 1,500 acres in 1980.

(*c*) The Land and Water Conservation in the Upper Mahaweli and the fuel-wood plantation in the Mahaweli settlement area. This project which has a forestry extension component was started in 1980, with assistance from USAID. The total cost is estimated at Rs. 260.8 million of which Rs. 70 million is available as aid. The project aims at reafforestation of 15,000 acres of denuded or degraded land in the upper catchment of the Mahaweli and the planting of fuel

-wood trees in 35,000 acres of the settlement area. The performance in 1980 has been satisfactory. The target of 6,750 acres has been achieved. Because of its importance for the Mahaweli Programme, the project has not been scaled down in 1981.

(*d*) The forestry components of projects in other sectors. which contributed about 6,000 acres to the area planted in 1980. They are:

(i) The NADSA project aided by IDA—3,200 acres.

(ii) The Hambantota Integrated Rural Development project aided by NORAD—980 acres.

(iii) The Matara Integrated Rural Development Project assisted by SIDA—810 acres, and

(iv) The Nuwara Eliya Integrated Rural Development Project with assistance from the Government of the Netherlands—1,000 acres.

15.56 The target for 1981 is set at 10,555 acres under the above four projects and additional extents are also to be taken up for reforestation under the integrated rural development projects for Puttalam and Matale Districts which are expected to start in 1981.

15.57 A number of forestry studies are also being undertaken by way of land use surveys,aerial surveys, forest inventory and agriculture base mapping. The on-going agriculture base mapping is a project costing Rs. 80.6 million of which Rs. 71.5 million is made available as aid from USAID. The Forest Inventory project is a UNDP assisted project which costs Rs. 13.4 million of which Rs. 8.8 million is UNDP assistance. This project will start in 1981. Latersol I, aided by UK/ODA is another resource survey project costing Rs. 43.8 million of which Rs. 38 million is UK aid. The total investment in forestry during the period 1981-1985 is expected to be Rs. 440 million.

15.58 Three new projects that have not been included in the Investment Programme because of financial constraints and because their formulation and appraisal have still not been completed, are:

(*a*) *Community forestry project*

About 6,000 acres of fuel-wood will be planted under this project. This project is now being formulated with technical assistance from ADB for financing by the Bank. It is expected that this project will act as a catalyst in the promotion of community forestry in rural areas.

(*b*) *Reforestation in the Dry Zone*

The Project envisages the reafforestation of abandoned *chena* lands and other lands in the dry zone. World Bank assistance is expected for this project.

(c) *Water shed management in the catchment of Major Tanks*

These projects are likely to be appraised and ready for implementation in the years 1982 and 1983.

(f) *Livestock*

15.59 The main objectives in the livestock sub-sector are,to improve milk collection and processing facilities, the development of feed and fodder resources which has been a major factor constraining livestock output,the upgrading and expansion of livestock resources,the maintenance of animal health and the provision of supporting services for livestock development.

15.60 In pursuit of these goals,the National Milk Board increased the number of milk collecting centres from 58 in 1978 to 6 in 1979 and 74 in 1980. The purchase price of milk was kept under constant review and revised upward to match the high cost of animal feed. In November, 1980, the price of milk was raised from Rs. 1.93 per litre to Rs. 2.28 per litre.This was futher revised to Rs. 2.45 per litre in March,1981. Farmers are being encouraged to form dairy producers associations for actively engaging themselves in dairy development activities in an organised manner. So far, 113 such associations have been formed at Rikiligaskada, Nawalapitiya, Kuliyapitiya, Matale and Gampaha districts with a total membership of 6,000 dairy producers. Veterinary and artificial insemination services,cattle feed and drugs are being supplied to them. As a result of these measures, milk collection rose to about 62 million litres in 1980, compared with 49 million litres in 1978, despite a precarious balance between the producer price of milk and the high cost of animal feed.

15.61 Measures were also taken to improve milk processing and marketing. The condensed milk factory at Polonnaruwa came under a new management with the signing of a joint-venture agreement between Nestle's of Switzerland and the Milk Board. The new capital involved is Rs. 30 million with government equity being 40 per cent. In addition, a spray dried full cream milk powder and packing plant and an infant feed and cereal manufacturing plant is to be set up at a total cost of Rs. 340 million. These projects will have a supporting dairy development component costing Rs. 6 m /annum in the districts of Kurunegala, Puttalam and Anuradhapura to supply milk to the plants.

15.62 Two sachet-packing machines and 20 bulk-vending machines were installed to increase the production and sale of pasteurised milk. The transport fleet was also strengthened by the import of 16 milk tankers and packeting machines for full cream milk powder was installed at Ambewela factory.

15.63 Since development of the livestock sector is heavily dependent on the availability of animal feed, the emphasis in the programme has been on increasing the output of concentrate feed. The Ceylon Oils and Fats Corporation produces about

70 per cent of the concentrate feed requirements of the country. The total production of the corporation has increased from 41,817 metric tons in 1978 to 62,890 metric tons in 1979 and 81,185 metric tons in 1980. The production target for 1981 is 90,000 metric tons.

15.64 In November 1978, an overall reduction of Rs. 400 per metric ton in the price of animal feed was made by the Ceylon Oils and Fats Corporation in order to improve producer incentives for the development of the livestock sector. To off-set the losses, the Government decided to make available to the corporation, damaged food items and by-products from government departments and state industries at cheap rates. Other raw materials both imported and local, however, were not subsidised. Since the above price revision, the price of raw materials and other costs such as the cost of wages, power, transport, packing materials and interest charges have increased.

15.65 In order to expand production capacity, the Oils and Fats Corporation is installing a 50 ton per day Solvent Extraction Plant which is expected to go into operation by June, 1981. It is also planned to augment provender production by installing a new plant with a 20-ton per hour capacity under the Netherlands assistance programme. This would help to modernise the existing facilities and to meet the immediate increase in demand for animal feed.

15.66 The re-formulation of the IDA/Sri Lanka Dairy Development Project was agreed upon by the Government of Sri Lanka and the World Bank. This re-formulation is still in progress and the replacement of the sterilised milk factory at Pallekelle is proposed to be financed under the reformulated project.

15.67 The Department of Animal Production and Health is now more directly involved in livestock development activities. A School of Animal Husbandry has been established at Welisara to provide diploma level training in animal husbandry for middle level technicians. The veterinary and extension services are also being strengthened. A Sri Lanka-Swiss Livestock Project to be administered by the department has been started recently to develop dairy farming in the Eastern Region. A foot and mouth disease vaccine production unit was established in 1979 with assistance from the United Kingdom.

15.68 In order to tackle the problems of animal feed and fodder development and remove bottlenecks in the development of the livestock sub-sector, an investment programme costing Rs. 547 million has been drawn up for the period 1981-85. The main emphasis of the programme will be on the development of concentrate feed which comprises 16.4 per cent of the total expenditure. Emphasis is also given in the programme to the development of other feed resources such as pasture and fodder, strengthening of livestock farms, improvement of veterinary services and extension and marketing support. The Government also agreed to establish a joint venture Agricultural and Livestock Company with Libya to increase poultry production in Sri Lanka. The principal outputs of the project will be 2,750 tons of poultry meat and 35 million eggs per year.

(g) *Fisheries*

15.69 The performance in the Fisheries Sector has shown considerable improvement in recent years as a result of the high priority attached by the Government to the development of this sector. Fish production in 1980 increased to about 183,000 metric tons,compared wi h 168,400 metric tons in 1979 and 138,800 metric tons in 1977. This significant increase in production (over 30 per cent in 3 years) is the result of substantial investment in the fishing fleet under the mechanization programme and improved supplies of fishing gear, engine spares, ice and other inputs. In the public sector, substantial investments were made in ice plants, fish-net factories, boats, harbour construction,fish processing, marketing and training. The overall size of the public sector investment increased from Rs. 36 million in 1977 to Rs. 115 million in 1979 and Rs. 236 million in 1980. The total public investment envisaged for the period 1981-1985 is estimated at Rs. 850 million.

15.70 Major emphasis was given to the involvement of the private sector in setting up ice plants, boat yards, fishing gear factories and other supportive services. During 1980, 32 projects including 12 ice plants, 13 boat yards and 2 fish-net factories with a total cost of Rs. 31 million, were approved by the Local Investment Approval Committee of the Ministry of Fisheries. In addition, the FIAC approved investment projects valued at Rs. 17 million. A number of seminars were also held to promote private investment in the fisheries sector. Rs. 55.5 million were given out as subsidies under the mechanization and cyclone rehabilitation schemes in 1980 as compared with Rs. 38.8 million in 1979. The increase was due to the larger number of boats and engines issued in 1980—537 (28-32 ft. boats), 341 (15 ft.-17 ft.). Fibre Reinforced Plastic (FRP) boats and 62 inboard engines. In addition, 303 fishing boats were issued under the Cyclone Relief Scheme involving a subsidy of Rs. 1.6 million. The Government plans to continue with subsidy support (35-50 per cent on engines, boats and fishing gear) to fishermen for promoting mechanization of boats and development of the fisheries resources in the country. A new subsidy of 75 per cent on the cost of sails for the mechanized boats has also been introduced in 1980 to encourage the saving of fuel in fishing operations. In addition, credit facilities are being made available to private investors.

15.71 The investment programme of the Ministry of Fisheries has been formulated within a Master Plan covering the period 1979-83. The Plan endeavours to achieve the maximum sustainable level of production estimated at 250,000 metric tons with the implementation of three major fishery development projects identified in the Plan, It is proposed to introduce new craft and gear and replace unserviceable craft and gear as well as provide shore facilities such as anchorages, habours, ice plants, chill rooms and transport equipment. Subsidies and credit support to the fishermen are also provided under these projects.

15.72 The North West Coast Fisheries Development Project provides for the introduction of eighty 34 ft. drift netters, ten 34 ft. trawlers, two 50 ft. combination vessels, and shore facilities. This project is on-going and is expected to be completed by 1984, with assistance from the United Arab Emirates (US $ 4.6 million). It is estimated that annual fish production will increase by about 10,000 metric tons on completion of the project.

15.73 The second major project is the East Coast Fisheries Project, which is financed by the Government of the Netherlands. Under the project 30 (32 ft.) FRP boats for drift netting, 90 (17 ft.) FRP boats for fill netting and shore facilities, including ice plants, chill rooms, workshops and slip-ways will be provided.The Netherlands assistance is DF 5.1 million. The project is expected to be completed by 1982. Fish production is expected to increase by about 2,000 metric tons by 1983 under this project.

15.74 The third project, namely, the West Coast Integrated Fisheries Project, has been prepared for ADB assistance. This project provides for craft and gear and shore facilities. It is expected to finalise assistance from ADB for this project before the end of the year.

15.75 Apart from these projects, the integrated rural development project for the Puttalam District provides for the development of the fisheries sector. This project, funded by the IDA, envisages the construction of three jetties at Chilaw and Kalpitiya and a Fisheries Service Centre, provision of transport equipment, improvement of access roads and electrification of important fishing centres and provision of beacon lights at 12 sites. The project aims at strengthening ground support for the fisheries sector and improving the living conditions of the fishermen.

15.76 The development of inland fisheries is also to receive attention in view of the large number of irrigation reservoirs available in the country and the low capital cost in volved in the exploitation of these resources.In order to make fresh water fish more acceptable to the general public, the Institute of Fish Technology has started a research project with UNDP assistance. The main emphasis would be on fish processing and product development. In addition, UNDP assistance is available for training and demonstration and production of fingerlings to stock a large number of irrigation reservoirs. The production in this sector has in creased from 17,430 metric tons in 1979 to 20,327 metric tons in 1980. This has been achieved by stepping up fingerlings /fry supply and by the provision of production subsidies.

15.77 The near depletion of resources in the coastal fisheries and limited development possibilities in inland fisheries over the long run, have focussed the attention of the Government to the exploitation of the deep sea resources. The Government in 1979 declared a 200 mile Exclusive Economic Zone. But exploitation has been delayed due to lack of local know-how and vessels. Japan has responded to the need and provided a training vessel in 1980. However, the development of deep sea fisheries will take a long time. Therefore the development is now open to foreign investment.

15.78 The Ceylon Fisheries Corporation which was established to handle marketing of craft, gear and produce was reorganised in 1980 on a commercial basis. The Ceylon Fishery Harbours Corporation which provides anchorages, harbours and other shore facilities has been directed to re-order its priorities and de-emphasise high cost construction works involving long gestation periods. The present trend of introducing beachable craft has reduced the harbour development work of the Corporation. It will now concentrate only on locations where beaching is not possible.

15.79 A new state institution is proposed to be set up during 1981, namely, the National Aquatic Resources Agency. which will take over the functions of research and development from the Central Fisheries Research Institute, the Institute of Fish Technology and the Fishing Technology Unit. This Agency will co-ordinate research and development of aquatic resources of the country.

15.80 The exports of fish and fish products fell from 3264 metric tons in 1979 to 2307 metric tons in 1980. This short-fall is mainly in the export of prawns. The proposed ban on the export of endangered species as well as rising consumption within the country are thought to be responsible for this trend. The import of dry fish increased during 1980 to 11,655 tonnes from 6770 tonnes in 1979, while there was a slight drop in the import of canned fish from 11,890 tonnes in 1979 to 10,710 tonnes in 1980. Domestic production supplemented by imports, helped to improve the per capita availability of fish and keep the market prices under check.

16. Industries

16.01 The changes in industrial and economic policy introduced in 1977 were, *inter alia*, aimed at restoring efficiency to the manufacturing sector and expanding the base of the sector through new investments. The central objective of this policy was that the manufacutirng sector should become export-oriented and therefore, competitive by international standards. In keeping with this policy, industrial corporations in the public sector have been required to obtain the finance required for their new investments from commercial banks. This would also enforce a sense of financial discipline on these corporations and make them less dependent on the government budget. Thus,the Investment Programme 1981-1985 does not make any major allocations for new investments by public sector industries. Total investment through the government budget is estimated at Rs. 353 million,mainly in 1981 and 1982 to finance the on-going programmes in the textile sector and the final payments for the Urea factory. The other allocations to industrial institutions in the Public Investment Programme are for non-profit making research, extension and promotional organisations and geological and other surveys.

16.02 In addition to budgeted expenditures, it is expected that considerable extra budgetary investment will be made by individual corporations from their own profits and commercial bank borrowings. The most likely investments of this nature are the Ceylon Cement Corporation's conversion to coal firing and the Kankesanturai Cement (expansion) Stage III. Other investments under consideration are by the Paranthan Chemicals Corporation for a caustic soda plant, by the National Paper Corporation for a pulping plant and by the Ceylon Ceramics Corporation for a table-ware project and a sanitary-ware project. Other important activities in the public sector industrial field are the geological and resource surveys now under way, of the Appatite, Copper-Magnetite and Illmenite deposits and the exploration for oil in the north.

16.03 The policy of the Government to make the manufacturing sector competitive by international standards and force public corporations to be more commercially oriented seems to have paid dividends. In the public sector,many corporations have improved their management practices and output and have moved to more realistic pricing in competition with the private sector and imports. Several corporations have also entered into joint ventures with foreign investors for new technology and exports. Thus, the Ceylon Tyre Corporation, the Leather Products Corporation and the Ceylon Petroleum Corporation have entered into joint ventures with foreign firms for export.

16.04 In the textile sector, Government introduced several policy measures to revitalise the industry. The large textile mills previously owned and managed as a single entity by the National Textile Corporation were split into independent operating units under private sector management. Ownership of the medium scale power-loom centres run by the Department of Textile Industries was transferred to the private sector. Although initially output dropped in both these areas with the change over, efficiency and output have subsequently increased considerably. In the case cf the medium scale power-loom centres and the smaller hand-loom sector Government will provide some technical assistance and services by way of training and research with the establishment of the new Textile Training and Research Institute.

16.05 By and large, in industry, it is the private sector that is expected to play the major role both in export industries and in meeting the domestic demand for wage goods and commodities arising from the accelerated development programme. In this regard the response of the private sector to the various policy measures introduced by the Government has been encouraging. Private sector industry grew at 14 per cent in 1978; although the growth rate dropped in 1979 it has picked up again in 1980. In these three years private sector industry has grown at a faster rate than public sector industry. Performance has been equally encouraging both within and outside the GCEC.

16.06 In the GCEC area 137 industries with a total investment of Rs. 4,037 million had been approved by end December 1980. Of these, 57 firms had signed agreements and 23 gone into commercial production by end 1980. Gross export earnings from these have increased from Rs.152.1 million in December 1979 to Rs. 505.3 million in 1980 and factory employment has risen from 5,884 at the end of 1979 to 10,581 in December 1980. Outside the GCEC area also the number of industries with foreign collaboration approved increased from 21 in 1978 to 61 during 1979 and a total of 86 were approved during 1980. Similar progress is seen in the local investments approved by the Local Investments Approvals Committee (LIAC). By July 1977 there were 1,866 firms in existence under the LIAC schemes of the Ministry of Industries and Scientific Affairs. After July 1977, new approvals stand at 2,012 firms out of which 807 were in production by May 1980. In addi ion there are the investments approved by the Ministries of Textiles, and Fisheries

16.07 In the field of small and medium scale industry, a special project was initiated in 1979 with IDA assistance designed to provide industrial credit through the National Development Bank, the Development Finance Corporation and four Commercial Banks with technical assistance and extension principally through the Industrial Development Board (IDB). Specific programmes of the IDB included training, provision of facilities for electroplating, the establishment of a sub-contracting exchange for improvement of process and product sub-contracting with large industries, a rubber products centre and a building materials centre.

16.08 The successful operation of the IDA assisted small and medium industry project (SMI) has led to the negotiation of a second project which is likely to be operative in 1982. A new feature in this project will be the emphasis on export marketing and provision of credit for technical, marketing and management services.

17. Economic Overheads.

(*a*) *Transport*

17.01 The overall policy for public sector transport undertakings is that they should move towards commercial viability. In general, operating subsidies are to be phased out, though the Government will, for sometime, continue to provide most of the funds for capital expenditure. At present it is not possible to identify profitable and unprofitable public transport services, as costing systems are not adequate. Studies are under way to refine costing in the Transport Boards and the Railway; when these are completed a more realistic pricing policy will be adopted.

17.02 The Government has encouraged the private sector to participate in passenger transport as it has demonstrated its ability to operate efficiently and to provide the kind of service the public wants. Private bus operators are being encouraged to supplement the services being provided by the RTBs.[1] The response of the private sector to these initiatives has been encouraging. It is estimated that about 5000 private coaches were operating by May 1981, on the main routes and urban areas accounting for about 15 per cent of the passenger market. A new Ministry of Private Omnibus Transport has also been set up to co-ordinate and promote these services.

17.03 Private road hauliers have also been helped by the removal of import restrictions on lorries. As a result, the road haulage industry has expanded since 1977 and a large number of new vehicles has been added to the fleet for replacements and to meet the growth in demand.

17.04 Transport investment policy in the public sector is governed by the need to renew the assets of the Transport Boards and the Railway. However, investment funds are constrained and no new projects are envisaged for the time being in either of these organisations. This reinforces the need to improve the maintenance and utilisation of existing assets as it is likely to be the only way to increase the supply of transport services. Likewise in roads, emphasis will be on rehabilitation and improvement of existing assets.

17.05 Planning in the transport sector has been weak in the past. To remedy this, a planning unit is being set up in the CGR and the IDA assisted Road Transport project is expected to strengthen planning in the SLCTB. The intention is for these organisations to prepare corporate plans and also to improve financial management by introducing a system of monitoring current operations. The transport sector is a major user of petroleum products and great importance will be attached to the efficient use of energy within the sector.

17.06 The Sri Lanka Central Transport Board (SLCTB) raised fares in March and November 1980 in response to increases in costs, particularly of fuel and spares. The combined effect of these increases was to more than double fares, resulting in a sharp reduction in the rate of growth of SLCTB traffic as the following table shows:-

TABLE 17.1

PUBLIC PASSENGER TRANSPORT
(Million Passenger Kilometers)

	1976	1977	1978	1979	1980	*Growth Rate* 1978-79	*Growth Rate* 1979-80
SLCTB ..	14,652	15,367	17,827	19,265	19,997	8.1	3.8
CGR	3,005	2,793	3,709	4,072	3,800	9.8	-6.7
	17,657	18,160	21,536	23,337	23,797	8.4	2.0

[1] Regional Transport Boards

A closer examination of the figures reveals that the March fare increase stopped the upward trend in passenger kilometers and the November increase resulted in a drop. This tendency has been most obvious in those regions where private operators or the CGR provide an alternative mode of transport, i.e. in the Colombo Uva and Southern regions. There has also been a significant increase in the average length of journey as short journeys have been reduced.

17.07 In 1980, the SLCTB received an operating subsidy of Rs. 457 million and Rs. 265 million for capital expenditure. Nearly 750 new buses were registered during the year. Negotiations on the IDA project were finalised and tenders were invited in January 1981 for the first tranche of 600 bus chassis.

17.08 The Government's decision that public corporations should operate on a no-loss basis means that the SLCTB and the Regional Transport Boards will have to make every effort to improve efficiency. Meanwhile the Government recognises that fundamental changes are necessary to meet the no-loss target and therefore, the policy is being reviewed.

17.09 Rail passenger kilometers deccreased in 1980 by an estimated 6.7 per cent mainly due to the fare increases and competition from road transport. Another relevant factor may have been the disruption of services during the year. The delivery of new locomotives from the Federal Republic of Germany and Japan was completed in 1980.

17.10 Smooth Railway operation is severely handicapped by the deteriorating track condition, due mainly to lack of investment and the inability to obtain timber sleepers in the past, and the use of old rolling stock, some of which is over fifty years old. Under the track rehabilitation programme, commenced in 1979 with the assistance of British ODM, 9000 rails were laid in repairing the track between Polgahawela and Aluthgama, covering 128 track-miles. The entire track between Colombo and Panadura was replaced with new rails. These improvements have resulted in removing speed restrictions in 75 sections within these busy routes.

17.11 As regards rolling stock, the department achieved considerable progress in the replacement programme undertaken in 1979 by placing a further order with Romania for the supply of 150 passenger coaches, importing 18 of the 34 carriages from India for which an order was placed in early 1980, ordering 40 high capacity oil tanks from South Korea and assembling thirty wagons at the Ratmalana workshop out of components imported from India.

17.12 Although there is no firm estimate of the volume of freight traffic in the Island, it is generally accepted that road haulage accounts for the bulk-over 80 per cent, of the freight traffic in Sri Lanka. The railway's share in freight traffic has apparently been less than 17 per cent and the figures available for the past several years indicate that the tonnage handled by the railway has remained more or less static. In 1979, rail freight further suffered as a result of a 200 per cent increase in freight rates. Tonnage handled dropped sharply and freight rates were reduced by up to 40 per cent in 1980 resulting in some success in recapturing part of the lost traffic.

17.13 In road haulage there was a futher increase in the registration of lorries in 1980 to meet the growing demand. The bulk of this new capacity is in the hands of the private sector which dominates the freight market although state institutions and co-operatives continue to have a significant share.

17.14 Public investment in the transport boards and the railway during 1981-1985 will be limited to on-going projects. An IDA loan will finance new buses for the next two years but further investment will depend on a further review of policy. The bulk of the railway investment programme represents instalment payments for rolling stock already delivered or on order. In 1980, an order was placed for a further 16 locos, partly financed from British aid. The track rehabilitation project will continue to upgrade the state of the track and foreign aid is being sought for improving the telecommunication system.

(*b*) *Highways*

17.15 Investment in highways is mainly for the improvement and maintenance of the existing network. Increasing vehicular traffic on the roads consequent on the large scale import of vehicles over the last two years and the increased tempo of economic activity in the country naturally demand heavy investment on the highway network for its proper maintenance.

17.16 The major project currently being handled by the Highways Department is the World Bank assisted Road Rehabilitation Project which is designed to rehabilitate 112 miles of class A & B roads and repair 20 bridges on the trunk roads. Preliminary work, with a team of consultants preparing the designs on road development and bridge reconstruction, commenced in early 1980 and construction work on some components were undertaken during the latter half of the year.

17.17 A change in highway construction policy effected in 1980 was the discontinuation of the hitherto practised policy of carrying out road construction work exclusively through direct labour. This opened the way for the entry of private contractors bringing with them the resources available outside the Department of Highways to undertake and complete the work programme set out for a given period. In 1980, several contractors,large and small were registered wih the Department and action was taken to give out highway construction work on contract to some of them.

(c) Telecommunications

17.18 Rapid growth since 1977 in the economy especially in the service sector including tourism, import-export trade, banking, insurance and finance, internal trade and commerce, placed tremendous pressure on the existing telecommunication system which had been operating at capacity with very little annual investment to maintain and upgrade the system. Several projects were formulated and implemented with foreign assistance during the last two years to strengthen and revitalise the telecommunication facilities. Investment in this sector during the 1981-1985 period is estimated at Rs. 2,083 million.

17.19 High priority was given to the improvement and expansion of the Overseas Telecommunication Service where demand increased rapidly following the establishment of the Free Trade Zone and increased commercial activity. Action was taken to expand the Earth Satellite Station at Padukka and this work was completed by the end of 1980. Modifications to the Satellite system were effected in view of the launching of a new Satellite, Intelsat V, in early 1981. To meet the growing demand for Overseas Communication, a new 1000-line Telex Exchange was commissioned providing Telex services to 150 new subscribers, and direct dialling facility was extended to 200 subscribers. The Indo-Sri Lanka micro-wave project, designed to improve overseas communication services will be completed by the end of June 1981.

17.20 In the domestic telecommunication sector, the IDA assisted Greater Colombo Development project for the rehabilitation and improvement of the internal telecommunication system was finalised in 1980 and action is being taken to implement the project in 1981. The Colombo Area Development Scheme, Stage II which commenced in 1979 to provide an improved switching system and an additional 17,400 telephone lines whtin the Colombo area progressed satisfactorily in 1980. The project is scheduled to be completed in 1981. A project designed to extend direct dialling facilities to six major towsn, Anuradhapura, Jaffna, Badulla, Kurunegala, Ratnapura and Trincomalee commenced in 1980 and is scheduled to be completed in 1982. Restoration work in the Cyclone devastated area was carried out as planned in 1980. A total of 3,500 lines and 4 trunk exchanges are being provided under this project· work on the Colombo Area Development scheme stage to provide 20,000 addilions-lions will commence in 1982.

(d) Civil Aviation

17.21 With effect from February 1980, functions relating to operations and maintenance of airports have been vested in the Airports Authority of Sri Lanka. The Department of Civil Aviation is responsible for the provision of communication and aeronautical navigational aids excluding visual navigational aids, administrative functions such as participation in negotiations of bilateral agreements on Traffic Rights, registration of aircraft, issue of certificates of airworthiness for aircraft and investigation of aircraft accidents.

17.22 The Airports Authority continued some of the projects commenced early in 1970. The bulk of the development work had been in the Colombo Airport, Katunayake. The principal item of work under the Airports Authority is the implementation of the Master Plan for the development of Colombo Airport, Katunayake, which caters to needs projected up to the year 2,000.

17.23 Financing of this project in the period 1981-1985 cannot be met from the government budget and external financing will have to be sought. In March 1980, tenders were called for consultancy services and the award was made in August 1980 to the Netherlands Airport Consultants B.V. It is expected that tenders for construction would be called for in about a year. Meanwhile the Airports Authority has completed or commenced work on the construction of cargo buildings, engineering workshops and stores for the ground handling organisation, and the national carrier flight kitchen, refurbishing of the airfield lighting system, procurement of equipment such as five rescue vehicles, heavy duty crane and baggage weighing equipment and other utility vehicles and fencing of the airfield.

(*e*) *Tourism*

17.24 Tourism has emerged as a major foreign exchange earner giving employment to a large number and providing a fillip to domestic production in the traditional handicraft industries and other sectors. Tourist arrivals in 1980 exceeded the anticipated figure by 7.9 per cent. Actual arrivals by the end of December 1980 reached 321,780 which is 28.6 per cent more than the figure for 1979. Growth rates achieved in 1978, 1979 and 1980 were substantially higher than the annual growth of 21.9 per cent experienced during the period 1966-79.

17.25 Foreign exchange receipts for 1980 are provisionally estimated at Rs. 1,600 million which is an increase of 33 per cent over the previous years receipt of Rs. 1,200 million. Direct and indirect employment created by tourism is estimated at 53,000 in 1980.

17.26 Growth in Tourist accommodation, especially in the 'Graded' sector could not keep pace with the inflow of tourists during the last two years. This is clearly shown in the average occupancy rate which increased to 55.0 per cent in 1980 from 52.8 per cent in 1979. The highest demand for accommodation is felt in the Colombo area, especially in the city itself where the occupancy rate was over 71 per cent. The total number of rooms in operation by end of December 1980 was estimated at 5,900. This figure fell short of the target for 1980 by 773 rooms. In 1980, 961 rooms were approved and approval was granted for the construction of 17 new hotel projects with a total capacity of 1,357 rooms.

17.27 Public investment, which is a fraction of total investment on tourism, is channelled through the Ceylon Tourist Board and it is mainly for the development of infrastructure facilities and major tourist resort projects.

(f) *Power*

17.28 The main issues relating to policy and investments in the energy sector have already been discussed in Part I. Approximately 33 per cent of the country's total commercial energy demand is met by electricity. But in the Island's total energy consumption, electricity accounts for only about 13 per cent. Over the last two years the demand for power grew fast, and well above the rate at which power has been generated, on account of the upsurge in industrial and commercial activities. Since 85 per cent of electric energy is consumed in the commercial and industrial sectors, tariff revisions in 1979 and 1980 did not result in lowering the demand for electric power. The demand for power continued to grow at the rate of 10 per cent per annum.

17.29 The bulk of the country's power supply is from hydro plants. As at the end of 1980 there were seven hydro plants in operation with a total capacity of 331 MW, capable of generating approximately 1500 Gwh annually. Total thermal back up as at end of 1980 was only 50 MW producing 220 Gwh of energy per annum. The overall power balance is expected to be restored only by 1985 when the major hydro power plants under the Accelerated Mahaweli Development Programme, viz: Victoria and Kotmale come on stream. However the experience during the last two years has demonstrated the need to have a thermal back up of about 20 per cent.

17.30 Investment in the power sector during the period 1981-1985 outside the major power projects of the Accelerated Mahaweli Development Programme is estimated at Rs. 2,561 million. The major investments identified are:-

(1) Completion of the hydro plants Bowatenna and Canyon with a combined capacity of 70 MW.

(2) The installation of a second set of gas turbines of 60 MW to provide the necessary thermal back up.

(3) Transmission Project IV, financed by IDA and the Saudi Fund. This project will reinforce the Colombo distribution network.

(4) Transmission Project VI, which will be necessary when power from Victoria and Kotmale come on stream.

17.31 The programme also provides for a major rural electrification project with ADB and OPEC assistance to cover 1150 villages over a period of four years. Work on this project has already begun, but the vigorous pursuit of Rural Electrification will need serious review in the context of the country's overall energy problem diis-cussed in Part I. This will form part of the special sector study to be undertaken early this year with World Bank technical assistance.

(g) Ports and Shipping

17.32 The setting up of the Sri Lanka Ports Authority, unifying the operations of the existing institutions, Port Commission and the Port (Cargo) Corporation in August 1979, was a major landmark in the country's maritime history. The Authority took several policy decisions during the first few months of 1980 to improve the performance of the Port of Colombo. New equipment to the value of Rs. 250 million was ordered at the beginning of 1980. Of this equipment, three towing tugs costing Rs. 75 million were delivered in August 1980.

17.33 With the increasing demand for container facilities action was taken during the year to complete the Queen Elizabeth Quay, which had been designed to handle containers. The back-up area now available is about 9 acres and the amount of containers handled has progressively increased from 2,200 in January 1980 to 5031 in August 1980. About 20 per cent of these are transhipments to ports in India, Pakistan, Bangladesh and South Africa.

17.34 The major development work in the hands of the Ports Authority is the Japanese assisted Master Plan Project for the development of the Colombo Port. The first stage of this programme envisages the construction of a fully equipped container berth at Kochchikade, streamlining port operations and modernizing cargo handling facilities. The Japanese Government has agreed to provide US $ 37 million for the implementation of the first phase of this programme which is to be phased over the period 1981-1984. Local counterpart funds will be met from the Port Authority's own resources.

17.35 The Ceylon Shipping Corporation owns 8 cargo vessels with a gross registered tonnage of 61,227 tons and manages one 30,000 tanker which is used for the lifting of crude from the Gulf. Liberalization of imports, and the surge in economic development activity in the country have tremendously increased sea transport opportunities available to the Shipping Corporation. In 1980 the Corporation managed 58 voyages, four more than the number anticipated for the year and the net profit after interest for 1980 was Rs. 98.6 million which is about 20 per cent higher than the original target. The corporation will invest in additional fleet capacity of full cellular vessels to carry container cargo. Agreements were signed with agencies in Argentina and the Republic of Korea for the purchase of such vessels ranging from 3,000 to 12,000 DWT. The corporation also intends to purchase another two or three vessels from Japan on a loan given by the Japanese Government.

17.36 In 1979 the Ministry of Trade and Shipping decided as a matter of policy, to permit the private sector companies also to own and operate vessels in order to further reduce the country's dependence on foreign shipping lines for our import-export trade. The Sri Lanka Shipping Company is one private sector enterprise approved and it has already acquired one vessel to provide regular shipping services between Sri Lanka, the Middle East and Indian ports.

18. Social Overheads

18.01 The Social Overheads sector comprises primarily the health, education, social welfare, housing and water supply programmes of Government. The housing and water supply programmes have already been discussed earlier. The present section deals with the health, education and social welfare programmes on which most of the Government expenditure is of a recurrent nature, and the capital investment is relatively small. The main aim of government policy in these programmes is to improve the efficiency and effectiveness of the programmes while providing for the essential capital investment necessary to rehabilitate the infrastructure facilities. In the health sector expenditures during 1977-80 have improved existing services to acceptable levels and attention is now focussed on the provision of primary health care programmes and facilities for dealing with emerging non-communicable diseases. In the education sector the rehabilitation of the University infrastructure was undertaken first and is now in progress. At the same time, a careful review has been made of the needs of primary, secondary and technical education by a number of technical bodies. Their recommendations have been crystallised in a White Paper. The Ministries of Labour and Youth Affairs have also expanded their training programmes for labour and unemployed youth. The government health and education programmes and its social welfare programmes which include the food stamps programme have helped to maintain an equitable distribution of income, at a time when an increasing proportion of resources is being diverted to productive investment.

18.02 Estimated capital expenditures for 1981-1985 on the entire social sector, including housing and water supply,amounts to about 16 per cent of the total. Those on education, health and welfare come to about 5 per cent. Recurrent expenditures on social programmes are more substantial, with total expenditure on the social sectors accounting for 23 per cent of the government budget in 1980 and expected to continue at this level until 1985.

(*a*) *Education*

18.03 The formal education system attempts to reduce the imbalances prevailing in the distribution of educational facilities between urban and rural areas and to provide an education which would be useful for the majority of school-leavers. The improvement of small schools, the take-over and development of estate schools, the provision of better facilities for teaching science, and the maintenance and improvement of the educational infrastructure are the main components of the current strategy for general education. Opportunities for further education are provided at post-secondary level through universities and technical colleges. Facilities are also provided for those who leave school early to continue their education through adult education centres, school leavers programmes and the Open University education programme. An Education Services Ministry has been created to make sure that the facilities necessary for a better physical environment in the schools is provided.

General Education

18.04 In 1980, approximately 3.28 million students were enrolled in about 9,000 Government schools. School enrolment shows an increase of 33 per cent over 1977 due to the lowering of the age of entry to 5 years and the extension of the formal school system from 12 to 13 years. Teacher/Pupil ratios improved slightly to 1/23 due to teacher recruitment in 1979.

18.05 The budgetary provision for education increased from Rs. 919.4 million in 1977 to Rs. 2,296.9 million in 1981. Though the expenditure on education has been increasing annually in rupee terms it shows a decline in the real expenditure per student as a result of the increase in the student population. Additional expenditures were incurred mainly on the expansion of university education, the provision of welfare measures and on the salaries of additional teachers. School buildings were extended to accommodate new admissions to schools due to the lowered age limit. New schools and class-rooms were constructed. Science, Home science and Commerce rooms and laboratories were provided and education offices and training colleges were enlarged.

18.06 A total of 725 Estate Schools have been taken over so far and the balance 39 will be taken over in 1981. A survey of these schools has already been started to gather information regarding their staff, quarters, buildings, furniture, teaching aids etc. UNICEF aid is available for the improvement of these estate schools.

18.07 Under the small school project, about 2,500 schools were identified as deprived and measures were taken to upgrade and improve the learning facilities in these schools. UNICEF aid is being channelled for the improvement of 500 school buildings, 100 quarters for teachers and to provide the necessary equipment for these schools. 1,000 radios and about 2,000 sets of books have been distributed. 2,000 bicycles will be distributed for the use of staff in remote schools in 1981.

18.08 A survey carried out to analyse the teaching staff requirements in government schools reveals imbalances in the distribution of teachers among the various districts as well as an overall deficit of teachers in some subjects. The survey indicates that there is a shortage of science and commerce graduate teachers, and also of trained teachers in Science, Maths, English and Technical studies. Out of the total of about 133,000 teachers, about 27 per cent or 36,000 are untrained. The Key English Language Teaching programme was started with the collaboration of the British Council for improving the quality of spoken English among the teachers. The inadequate supply of qualified teachers in specialised disciplines, more particularly in the rural areas, is a major constraint in efforts to equalise the educational facilities provided for all children. The teaching staff needs survey shows a shortfall of about 19,000 teachers. The problem is further aggravated by the fact that nearly 36,000 teachers are untrained.

18.09 The distribution of free text books to private and public schools which was commenced in 1980 was a major step towards equalising educational opportunities for children. Copies of 130 different text books were distributed to children from the Kindergarten to Grade 10. About 70 per cent of the text books distributed were reused in 1981 and it is expected that this percentage will improve from year to year. The issue of free text books cost Rs. 75 million in 1980.

18.10 Four non-formal education programmes are in operation to train school leavers and adults for employment as it is evident that many of those leaving the school system and joining the labour market annually do not have the required skills to obtain gainful employment.

18.11 The investment programme for education in 1981-1985 gives priority to on-going programmes in the general education system, particularly the completion of school buildings, science labs, commerce classrooms, workshops and pre-vocational classrooms; improvements to secondary schools; and intensive development of selected 'A' level science schools. It is expected that after the adoption of the changes envisaged in the White Paper, the education system will be better able to meet felt needs, and the identified inadequacies and deficiencies in the existing system will be eliminated.

Technical Education

18.12 Due to relative neglect of technical education in the country, there have been imbalances in the whole educational system whereby a large proportion of students in the education stream were given education in the Arts, Humanities and Social Sciences and a comparatively small number pursued technical studies. The growth sectors of the economy are now experiencing shortages of technically trained man-power and the achievement of development objectives is hampered. The present educational policy therefore places particular emphasis on the expansion of technical education in line with the projected needs of the Accelerated Mahaweli Development Programme, the Free Trade Zone and other development sectors of the economy.

18.13 There has been an increase in the numbers enrolled in technical institutes from 1977 onwards. The courses conducted by the technical institutions under the Ministry of Higher Education as broadly categorised indicate that enrolments have fluctuated substantially before 1976 but have steadily increased since 1977.

18.14 In 1979, work on the new Junior Technical Institutes at Homagama and Nuwara Eliya was completed. In 1980, work on the Affiliated Technical Unit at Beliatta was completed. Work on the Junior Technical Institute at Hasalaka was completed in 1981. Construction work on the Junior Technical Institutes at Dambulla and Matale is due to commence in 1981. Among the other proposed Junior Technical Institutes are those at Trincomalee, Polonnaruwa and Puttalam.

TABLE 18.1

ENROLMENT IN TECHNICAL INSTITUTES BY COURSE 1970-80

Course	1970/71	72	73	74	75	76	77	78	79	80/81
Higher National Diploma & Prof. Courses ..	1182	638	844	1354	2044	2223	1963	1130	1212	1363
Diploma Courses ..	2161	486	532	416	728	580	754	1125	1538	754
Certificate Courses ..	3517	3321	3397	4568	5620	5100	5103	5375	6262	6336
Trade Courses	2081	2071	2400	2412	2430	2201	2010	3522	2927	3851
Total ..	8941	6516	7173	8750	10822	10104	9830	11152	11939	12304

Source: Ministry of Higher Education.

18.15 In establishing new technical institutes the Government has been guided by the Gnanalingam Committee Report. The Committee recommended the establishment of 14 new technical institutes. The possibility of obtaining foreign funds for setting up these new technical institutes is being explored. A request for SIDA assistance for equipping three new technical institutes and three affiliated technical units in areas, which do not have facilities for technical training at present, has been made.

18.16 The Government having fully appreciated the urgency and the need for improving the technical education system of the country, has substantially increased, actual and projected investment in this sector as indicated below:

TABLE 18.2

INVESTMENT IN TECHNICAL EDUCATION

(Rs. million)

	1980	81	82	83	84	85
Investment in Technical Education under Ministry of Higher Education	3.18	8.75	25.81	27.66	33.72	40.79

In addition to funding under the investment programme, financial support for civil works on some new technical institutes has been made available from the decentralised budget of certain districts.

University Education

18.17 The six campuses of the single University of Sri Lanka existing in 1977 have been re-organised into an equal number of autonomous universities with an additional campus being set up at Polgolla and a University College in Ruhuna. The University Grants Commission set up in 1978 has assumed a supervisory role with regard to the allocation of funds and staffing to these institutions.

18.18 The Government's admission policy for universities for 1978 was intended to be an interim measure, and in late 1978 a sub-committee of the Cabinet of Ministers was appointed to advise the Government on the future admission policy. Admissions for 1979 and 1980 were determined in accordance with this policy and a total number of 4,959 students were admitted in 1979 and 4,920 in 1980.

TABLE 18.3

STUDENT ADMISSIONS TO UNIVERSITY 1977-1980

Course	1977	1978	1979	1980
Medicine	242	400	405	400
Dentistry	50	50	52	60
VetScience	30	30	30	30
Agriculture	102	135	159	155
Bilolgical Science ..	237	340	326	360
Engineering	269	375	390	450
Applied Science ..	21	21	22	30
Architecture ..	27	40	40	40
Physical Science ..	508	545	540	480
Law	51	50	75	75
Arts & Commerce ..	2013	3010	2920	2840
Total ..	4150	4996	4959	4920

Source: Ministry of Higher Education.

18.19 The most noticeable feature of the increase in university admissions shown in the above table was the admission of large numbers to courses in Medicine, Engineering and the Biological Sciences after 1977. This additional intake was made possible by the establishment of a Faculty of Medicine in the University College in Galle, a Faculty of Medicine in the Jaffna University and the expansion of the facilities available in the Faculty of Engineering at Peradeniya University.

18.20 Under the investment programme for the period 1981-1985 a substantial part of the financial resources provided for the universities has been diverted to the construction of and extension to buildings in the science and science based faculties In the case of the University of Peradeniya, out of a total anticipated expenditure of Rs. 4.45 million for the construction of and extension to buildings, Rs. 3.45 millon (77 per cent) will be utilised for science buildings. In the case of the University of Colombo the total estimated cost of buildings for science and science based faculties is in the region of Rs. 60 million. In 1980, the total anticipated expenditure on these buildings was Rs. 10.4 million. In the case of the Sri Jayewardenepura University the entire provision for buildings is for the science faculty. In other universities too, science and science based faculties are getting substantial funding. The arts, humanities and social sciences have received a boost through the setting up of the new University College in Matara and of the Dumbara campus of the Peradeniya University with the former providing both science and arts education and the latter consisting of an Arts Faculty.

Open University

18.21 The Open University of Sri Lanka was etablished in 1980. The main purpose of setting up an Open University System is to provide further education for school leavers as well as for adults in employment. Academic and employment oriented courses are provided by the two Boards on humanities and social sciences and on management science and technology. A multi-media approach is to be adopted, including the despatch of teaching materials by mail, face to face teaching and eventually radio and television broadcasts. Seminars, weekend and vacation courses are also conducted at regional centres.

18.22 The first batch of students for the Open University was selected in 1980. Enrolment in courses in science and science-based subjects is shown in the table below.

TABLE 18.5

OPEN UNIVERSITY: NUMBER OF STUDENTS ENROLLED BY FIELD OF STUDY AS OF 1.7.1980

	Duration years		*1st year of study*	*2nd year*	*3rd year*	*4th year*	*Total*
National Diploma in Management Science	4	P	1000	700	—	—	1700
		A	876	502	—	—	1378
National Diploma in Mathematics	3	P	800	600	—	—	1400
		A	698	448	—	—	1146
National Diploma in Science	3	P		225	—	—	225
		A	68	186	—	—	254
H.N.C.T. Part (I) (Electrical)	1	P	1000	—	—	—	1000
		A	928	—	—	—	928
H.N.C. T. Part (I) (Electronics & Telecommunications)	1	P	1000	—	—	—	1000
		A	911	—	—	—	911
Total Number of Drop outs since start of the project		P	63	25	—	—	88
		A	594	69	—	—	663
All fields of Study		P	3800	1525	—	—	5325
		A	3491	1136	—	—	4627

Source: Ministry of Higher Education.
P — Planned A — Actual

18.23 The courses offered and the numbers enrolled in the science and science based courses of the Open University will probably make a valuable contribution towards solving the problem of shortage of middle level technicians in the country. However, remedial action has to be taken to reduce the number of drop-outs from the system. At the initial stage, 12.4 per cent of the students had dropped out.

18.24 A block of land, 20 acres in extent has been obtained at Nawala as the permanent site for the Open University in the Sri Jayewardenepura Complex. The construction of temporary buildings with a floor area of 15,000 sq. ft. has already been completed. and another 15,000 sq. ft. of buildings are under construction. The construction of these temporary buildings and the purchase of furniture and fittings will cost approximately Rs. 4.0 million. UNDP /UNESCO project assistance is being channelled to the Technical Education Programme of the Open University of Sri Lanka. SIDA /UNESCO /FIT support to SLIDE (now Open Univesity) increased from US $ 500,000 in 1978 /79 to US $ 965,000 in 1980/81. Further assistance of around US $ 1 million has been requested from SIDA for 1981-85.

(*b*) *Health*

18.25 During the period 1977-80 health sector activity was based on the policy framework outlined in the Government's "Programme of Action". It was directed towards rehabilitating the health services which had deteriorated substantially, improving health facilities, specially in underserved rural areas and integrating preventive and curative services on the one hand and western and ayurvedic medical systems on the other. The health budget increased substantially from Rs. 625 million in 1978 to Rs. 874 million in 1979 and Rs. 945 million in 1980. The allocation of funds for drugs, dressings, X'ray films and surgical material doubled. Rs. 104 million was provided in the form of grants and loans by the Netherlands for the purchase of vehicles and equipment for the health services.

18.26 A 500 bed hospital was established at Peradeniya with a Rs. 140 million grant from the Japanese Government. A new hospital was constructed at Embilipitiya to replace the old one and construction of the new Galle Hospital at Karapitiya commenced. Preliminary work was undertaken on the 1,000 bed hospital to be put up with a Japanese grant at Sri Jayewardenepura, Kotte. A number of new medical and administrative buildings were also constructed and a substantial amount of maintenance work done on existing buildings. Nineteen sewerage schemes and fourteen water supply schemes were installed in government hospitals.

18.27 A new dimension was given to the existing policy framework when Government signed the Regional Health Charter in February 1980 and thereby committed this country to the concept of an acceptable level of health for all by the year 2,000. The concomitant commitment to the WHO strategy of placing greater emphasis on preventive health in the context of primary health care is appropriate in the light of the morbidity and mortality patterns prevailing in Sri Lanka.

18.28 Vital statistics indicate that the downward trend in mortality rates which was interrupted in the period 1973-1975 is now firmly re-established. In 1977 the crude mortality rate fell from 7.4 to 6.5 per thousand, the maternal mortality rate from 1.0 to 0.8 and infant mortality from 42 to 37. Although the contribution of infant and child deaths to total deaths is declining, they still constitute a large proportion of total deaths, and there are wide disparities in the rates for different districts. Accessibility to quality maternal /child care together with simple educational inputs and the provision of basic sanitary facilities could prevent a large number of these deaths.

18.29 However, the so called diseases of progress and modernization—cardiovascular disease, trauma, hypertension and malignancies have also emerged as leading causes of death during the last few years. Prevention of death due to these diseases is only possible through heavy investment in advanced technology and specialised health manpower.

18.30 Preventible diseases also constitute a large proportion of hospital admissions but the decline in the rates for the major epidemic diseases particularly influenza, bronchitis and gastro enteritis has been maintained. The incidence of Malaria also fell from 48,000 cases in 1979 to 30,000 in 1980. Leprosy cases declined by 22 per cent between 1979 and 1980. Many of these preventible diseases could be treated at the periphery through simple intervention, thereby avoiding complications, relapses and revisits, reducing over-crowding in central institutions and disease incidence itself.

18.31 The health strategy for the period 1981-1985 will, therefore, place greater emphasis on aspects of primary health care including the improvement of medical services in rural areas by providing a well organised field based domiciliary service using midwives as multipurpose health workers and the services of health aides. Increasing emphasis on preventive health, particularly under the family health programme will require substantial increases in recurrent expenditures, especially on staff salaries and training.

18.32 Health manpower shortages have presented serious problems throughout the health care delivery system. Hence the training capacity for almost all cadres has been expanded. The new University medical faculties were established in addition to the two existing faculties, with an increased intake of 400 students per annum. A private sector medical faculty is also to be established. Post-graduate courses are now being provided in Sri Lanka by the Post-graduate Institute of Medicine. The facilities for training Assistant Medical Practitioners, Public Health Inspectors, Public Health Nurses and Midwives have been expanded and strengthened. The Institute of Hygiene, Kalutara has been designated the National Institute of Health Sciences (NIHS) and will undertake training of all public health personnel. Thus, a greater degree of national self reliance in the training of all categories of medical and para medical personnel will be achieved. It is hoped that by the middle of this decade this country will have adequate personnel to man the entire health service satisfactorily. In the meantime 165 UN Volunteer doctors are assisting in the maintenance of services at the periphery. By the end of 1983, there will be an average of one family health worker (mid-wife) serving 3,000 persons. Rs. 65 million has been provided for the development of the NIHS during 1981-1985.

TABLE 18.4

INTAKE OF TRAINEES, 1977-1981

	1977	1978	1979	1980	1981
Pupil Nurses	400	1250	600	600	—
Pupil Midwives	431	400	—	1460	—
Medical Lab. Technologists	22	30	30	30	45
Pharmacists	60	60	60	—	60
E.C.G. Recordists	—	5	—	—	23
Public Health Inspectors	80	80	80	80	80
Physiotherapists	10	14	14	20	20
Occupation Therapists	7	6	6	10	10
Radiographers	30	30	30	30	30
Medical Officers (Interns)	242	400	405	400	400
Asst. Medical Practitioners	40	—	160	185	185
	1322	2275	1385	2815	853

18.33 Further strengthening of the family health programme is necessary although considerable progress has been achieved through the expanded programme for the immunisation of children and the incentive scheme for family planning acceptors. During the period 1978 to 1980, 2.7 million children and been immunised against Diptheria, Whooping-cough, Tetanus and Polio. The number of new acceptors of family planning methods which had fallen to 67,890 in 1977 also showed a gradual recovery in 1978 and 1979 to 7,226 and 85,804 respectively and received a boost in 1980 with the introduction of substantial cash incentives to acceptors and medical teams doing surgical sterilisations. US $ 5.4 million of assistance will be provided by the UNFPA programme for these activities between 1981-84.

18.34 While giving continued support to local drug manufacturers, the State Pharmaceuticals Corporation has also taken steps to set up a Sterile Products Manufacturing Unit and a Tabletting and Capsulating Plant. The latter, when completed will supply 30-40 per cent of the country's requirements of 20 essential drugs.

18.35 Ayurvedic services will continue to supplement the existing Western system and Ayurvedic practitioners are being integrated into the provision of family planning services through training and information programmes. The programme to provide an Ayurvedic Hospital in each district, which started in 1979 is being implemented with work underway on hospitals at Pallekele (Kandy), Diyatalawa (Badulla), Meegoda (Colombo), Bibile (Moneragala), Minneriya and Amparai. Three Central dispensaries were converted into Ayurvedic dispensaries. Grants to the 240 free Ayurvedic dispensaries operated by local authorities were increased from 90 cents to Rs. 2 per patient. Herbaria will be established at the Ayurvedic Research Institute, Nawinna and in 16 districts. The registration of approximately 8,000 Ayurvedic practitioners, who give a high level of health coverage to the rural population, is progressing and every effort is being made to associate them with the organised health services. The newly formed Ministry of Indigenous Medicine will co-ordinate and supervise these activities.

18.36 Capital expenditure on health services during 1971-1985 will be mainly directed towards upgrading existing facilities and services at the peripheral level, completing the hospital projects already started at Peradeniya, Galle and Sri Jayewardenepura and providing the sophisticated treatment required to combat the newly emergent non- communicable diseases.

18.37 The premier hospital of the country, the Colombo General Hospital, will be provided with a new neurology unit and improvements will be made to the cardiology unit. Galle and Jaffna hospitals will be developed as Teaching Hospitals and two Cobalt therapy units installed in these two hospitals in 1981. Rs. 316 million will be made available for additional medical equipment.

18.38 Foreign assistance is being negotiated to accelerate the rabies and leprosy control programmes. A central warehouse and a network of regional stores for storage of 'Malathion' are being funded by the Netherlands Government. ADB assistance is being negotiated for a pilot programme to provide the facilities necessary for the delivery of the primary health care package in the districts.

18.39 In order to improve community involvement and participation in dealing with health problems, the Government has set up a National Health Council chaired by the Hon. Prime Minister with Ministers handling health-related acivities as members. The Council will give leadership to the total health development programme and encourage public interest and participation through district level committees. The National Health Development Committee, chaired by the Secretary, Health services the National Health Council and functions as the mechanism for inter-sectoral co-ordination. At present it is engaged in examining various aspects of the health care system through technical sub-committees.

18.40 A new organisational plan for the Ministry of Health with the primary objective of devolution of authority to decentralised institutions and regional boards has also been worked out. A White Paper setting out the details of proposals pertaining to the new organisation has been approved by Parliament.

(c) *Social Services and Welfare*

18.41 The state operates a wide range of social security and welfare schemes which are funded out of the recurrent budget. These are complemented by vocational training schemes for school drop-outs and unemployed youth, apprenticeship programmes and programmes for upgrading skills within industry.

18.42 Existing social security legislation and programmes cover the organised sector worker in his workplace and provide cash benefits to maintain and guarantee his purchasing power at times when it is reduced or interrupted, e.g. due to injury /disability, old age etc. However, the effectiveness of this legislation depends entirely on enforcement through inspection and prosecution and this is hampered by a lack of staff to cover the large number of small units scattered all over the island. Only about 40 per cent of wage earners belong to trade unions and workers in small units who are not organised are reluctant to complain to the Labour Department. Minimum wage decisions cover about 52 per cent of the employees in the organised sector or 31 per cent of the total labour force.

18.43 The provisions in the general labour legislation cover short-term risks such as unemployment, sickness, maternity etc. There is also a Workmen's Compensation Scheme for those suffering personal injury by accidents (including occupational diseases) arising out of and in the course of employment.

18.44 The Rs. 50/- monthly allowance for unemployed youth costing about Rs. 243 million or 0.5 per cent of GNP in 1979 was discontinued in mid 1980. Instead, training programmes to provide skills in craft areas, agriculture and management were stepped up. The Youth Services Council conducted short courses for 1,261 youths in 1979-80 while 9,384 apprentices have been recruited under the National Apprenticeship Programme, and 10,323 are undergoing training in the mobile training centres of the Ministry of Labour.

18.45 In the case of long-term risks such as old age and prolonged illness, security is provided through the Employees Provident Fund and several approved private provident funds.

18.46 Vulnerable groups, particularly the self employed and those not employed in the organised sector, who are not covered by existing programmes of social insurance or security,fall back on social welfare schemes operated by the State and voluntary agencies. In 1980, welfare services are estimated to cost Rs. 105 million or 0.2 per cent of GNP. The most widespread welfare service is the provision of means-tested public assistance, but the total number on the roll has been kept fairly static.

18.47 Institutional care for the aged, the physically and mentally handicapped of all ages, and socially handicapped persons are provided through state run institutions and voluntary homes. Medical rehabilitation is provided wherever necessary and handicapped persons are given vocational training so that they can return to society with useful skills.

18.48 The Youth Services Council and the National Development Service will organise a youth work force by mobilising youths between 15-20 years of age who are not attending school. It is intended that a regional youth work force be started taking 250 young persons from every AGA's Division of the Island, made up of units of not more than 50 from each Gramasevaka Division. Water conservation, land development, soil conservation, construction of buildings etc. are some of the projects that the youth workforce intends to undertake. This scheme will be entirely financed out of the Decentralised Budget. Two additional vocational training institutions will also be set up at Batagala and Akmeemana to provide further training for self-employment.

18.49 The National Apprenticeship Board is expected to set up two technician training institutes at Katana and Moratuwa. About 600 apprentices will be recruited by these institutions each year. Industrial technical workshops will also be opened at Katana and Katunayake for short-term training activities and 400 additional apprentices will be trained at craft level in these institutions each year. Under the Ministry of Labour, 22 district vocational training centres will be set up, each to serve as the nucleus for the mobile training centres in the respective districts. These centres will provide training in skills required in each area at a level sufficient to pass Government trade tests. The Netherlands has indicated its willingness to finance the first six centres to be set up.

18.50 A Foreman Training Institute will be set up with SIDA assistance. The scheme will train workers who are expected to be promoted to Foreman /Supervisory grades and also train those who are already functioning as charge-hands, first line supervisors and foremen (without any previous training) to perform their tasks more effectively. Productivity is expected to improve and initially the needs of smaller establishments will be given priority.

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PART III

PUBLIC INVESTMENT 1981-1985

RELEVANCE FOR THE

AID EFFORT

PART III

PUBLIC INVESTMENT 1981-1985 — RELEVANCE FOR THE AID EFFORT

19.01 Public Investment 1981-85 is the third in a series of rolling programmes. While the projections for 1981 have been fully integrated with the capital budget of the Government for 1981, the projections for 1982 to 1985 are as yet of a tentative nature. The rolling programme framework enables the integration of each year's projection with that year's capital budget at the time of presentation of the Budget. It also provides a certain degree of flexibility in containing each year's capital budget within the available resources and appropriate levels of foreign commercial borrowing and recourse to the domestic banking system.

19.02 The scope for further reduction in the investment programme is limited because of its high "on going" component and because over 90 per cent of the projects included in the programme have some aid attached to them. The import intensity of aided projects is necessarily high because aid in most cases goes to finance the import content of the project. This is in the very nature of the investment programme and the financing strategy employed. The foreign exchange content of the 1981-85 programme is estimated at 54 per cent. This may be considered high but is largely due to the inclusion of the major head-works of the Mahaweli, water supply and other economic overheads.

19.03 The Mahaweli Programme is large and capital and import intensive. It is generally considered a long gestation project even though its benefits will begin to accrue in the current five-year period. The Govenment accords it the highest priority. Three out of the four dams, namely Victoria, Kotmale and Randenigala are essential for meeting the demand for power in the 'eighties' if Sri Lanka is to avoid continued reliance on the more expensive thermal option. They, along with Maduru Oya are required to ensure agricultural outputs in Systems 'B' and 'C', beginning in 1983. They will result in large scale import substitution in agriculture and will provide a more lasting solution to the problems of land hunger and unemployment in the rest of the country.

19.04 The other projects included in the programme have been carefully chosen, in order to provide the social and economic infrastructure, in which quick gestation projects in both the public and private sectors could be implemented. Hence the scope for further reduction in investment is limited. Nonetheless, an attempt would be made each year, before presentation of the Budget, to bring aggregate government investment within available resources.

19.05 The projections in the 1981-85 programme target the raising of additional domestic resources of Rs. 1,500 million in 1982 rising to Rs. 3,000 million by 1985. As indicated in Part I, the effort is already under way. Despite these efforts, the pressures on domestic and external resources are likely to persist throughout this period. The substantial liberalization of imports is a major aspect of the development strategy. There are limits to the regulation of imports through exchange rate and pricing policies, especially in an economy like Sri Lanka. Nor is it feasible to scale down the investment programme drastically, for, it is the only available avenue for providing compensatory incomes and employment to enable the public to bear the costs of adjustment, including the removal of subsidies and other transfer payments.

19.06 Moreover, this investment programme has evolved over the years with the positive response and encouragement of donor countries and multilateral agencies. While Sri Lanka will make its own best efforts to re-phase the programme and to mobilize additional domestic resources, the understanding of donors will be required to enable the country to sustain its courageous policy package and implement its investment programme, which, though it may look large in relation to resources, is quite modest in relation to needs.

19.07 Donors can help in several ways. In the past three years, there has been a distinct and marked shift away from food and commodity aid to project aid. This was to be expected because donors were responding to the Government's desire to step up investment. It has, however, had the impact of increasing aid commitments without commensurate aid disbursements. Such aid would necessarily disburse only over a somewhat longer period. In the context of the emerging domestic and external resource gaps, donors would help by stepping up food and commodity aid commitments to the maximum feasible extent. This would also help to stabilise domestic prices, increase capacity utilization and provide certain essential inputs for domestic and export industries.

19.08 Given the magnitude of the investment programme and the large number of projects included in it, the scope for admitting any new projects in the period 1982 to 1984 is extremely limited. However, there are some on-going projects which have financing gaps, both foreign and local. Donor assistance to fill these gaps would be most welcome and would enable the country to absorb further project related assistance. It will also help in reducing the resource gap in the medium term.

ALLOCATION OF GOVERNMENT CAPITAL EXPENDITURE 1981 – 1985

TABLE 19

ALLOCATION OF GOVERNMENT CAPITAL EXPENDITURE 1981-1985

(A) Summary—All Sectors

(Rs. Million)

	1981		1982		1983		1984		1985		1981 - 1985			
	T	*FA*	*T*	*FA*	*T*	*FA*	*T*	*FA*	*T*	*FA*	*F.*	*L.*	*T.*	*FA*
1. Total Public Investment .. of which	14,612	—	18,457	—	19,124	—	18,676	—	18,710	—	—	—	89,579	—
(i) Extra Budgetary Resources	2,571 [2]	—	2,680 [2]	—	2,800	—	3,100	—	3,100	—	—	—	14,251	—
(ii) Non expansionary Resources available to Government Budget[1] ..	8,654	7,990	13,057	10,517	14,839	12,232	14,586	11,882	14,535	11,587	—	—	65,671	54,208
(iii) Supplementary financing required for investment programme ..	3,387	—	2,720	—	1,485	—	990	—	1,075	—	—	—	9,657	—
2. Total Budgetary Provision	12,041 [3]	5,102	15,777	8,756	16,324	8,767	15,576	6,281	15,610[5]	2,992	39,738[6]	30,623[6]	75,328[5]	31,898
Allocated to:														
(i) Agriculture ..	5,491	2,937	9,577	6,274	9,725	6,186	9,502	4,319	6,179	1,872	24,200	16,274	40,474	21,288
(1) Mahaweli ..	3,750	2,140	7,217	5,162	6,963	5,097	6,800	3,280	4,260	1,046	19,836	9,154	28,990	16,725
(2) Other Irrigation ..	461	310	773	418	941	307	910	270	481	179	1,482	2,084	3,566	1,484
(3) Forests & Lands ..	102	39	143	39	136	25	125	7	73	—	138	441	579	110
(4) Field & Minor Export Crops	665	252	635	284	686	290	709	323	498	262	1,319	1,874	3,193	1,411
(5) Plantations ..	220	118	511	262	661	324	718	351	638	299	781	1,967	2,748	1,354
(6) Animal Husbandry	115	32	129	49	118	42	88	18	97	25	266	281	547	166
(7) Fisheries ..	178	46	169	60	220	101	152	70	132	61	434	417	851	338
(ii) Housing, Water Supply & Urban Development ..	1,687[4]	811	1,973[4]	1,078	2,054	1,127	1,650	798	1,457	621	3,839	4,982	8,821	4,435
(1) Housing & Construction	909	479	1,004	543	1,087	527	1,075	511	1,041	475	1,681	3,435	5,116	2,535
(2) Water Supply ..	613	332	929	535	967	600	575	287	416	146	2,117	1,383	3,500	1,900
(3) Urban Development	165[4]	—	40[4]	—	—	—	—	—	—	—	41	164	205	—

(iii) Industry	134	45	82	18	60	16	39	2	38	—	198	155	353	81
(iv) Economic Overheads ..	3,712	1,211	3,489	1,335	3,756	1,393	3,632	1,127	2,836	478	10,196	7,229	17,425	5,544
(1) Transport ..	1,033	337	957	416	889	314	767	207	366	—	2,832	1,180	4,012	1,274
(2) Power	749	515	431	310	504	311	446	115	431	—	2,225	336	2,561	1,251
(3) Posts and Telecommunications ..	300	151	526	336	572	339	422	259	263	106	1,517	566	2,083	1,191
(4) Other Programmes of Economic & Administrative Overheads ..	1,630	208	1,575	273	1,791	429	1,997	546	1,776	372	3,622	5,147	8,769	1,828
(v) Social Overheads ..	455	98	656	51	729	45	753	35	703	21	1,305	1,991	3,296	250
(vi) Unallocated ..	—	—	—	—	—	—	—	—	4,397	—	—	—	4,397	—

(1) Figures provide for additional mobilisation in the years 1982-1985 and also Rs. 450 million in each of these years under US AID housing guarantee.

(2) Includes a sum of Rs. 520 million in 1981 and Rs. 280 million in 1982 in debentures for Urban Development.

(3) The figure of Rs. 12,041 m. is after the 10% cut on capital expenditure imposed by Cabinet and also provides for the following supplementaries not shown in the sectoral distribution. Rs.200 milllion for the Electricity Board; Rs. 500 million for irrigation, highways and construction; Rs. 60 million for fertilizer stores; Rs. 50 million for Randenigala. For this reason and because all ministries have not indicated the distribution of the 10% cut the sectoral figures will not total to Rs. 12,041 million.

(4) Together with Rs. 520 million provided for U.D.A. debentures in 1981 the sector total will be Rs. 2,207 million in 1981 and the amount for Urban development Rs. 685 million. In 1982 they will be Rs. 2,253 million and Rs. 280 million respectively.

(5) Includes Rs. 4,397 million for new projects to be identified.

(6) Will not add to 75,328 vide (3) and (5) above

T = Total Cost FA = Foreign Aid F = Foreign cost L = Local Cost

TABLE 19 (Contd.)

(B) Sectoral Allocations

I. AGRICULTURE SECTOR

(Rs. Million)

	1981		1982		1983		1984		1985		1981 - 1985			
	Total	*FA*	*Total*	*FA*	*Total*	*FA*	*Total*	*FA*	*Total*	*FA*	*Foreign*	*Local*	*Total*	*FA*
1. Mahaweli ..	3,750	2,140	7,217	5,162	6,963	5,097	6,800	3,280	4,260	1,046	19,836	9,154	28,990	16,725
1. Maduru Oya ..	434	265	635	355	470	135	—	—	—	—	930	614	1,544	755
2. Victoria ..	1,058	800	1,765	1,200	1,900	1,600	1,900	400	250	—	5,440	1,433	6,873	4,000
3. Kotmale ..	1,075	528	1,895	1,140	2,000	1,310	2,300	700	600	74	6,296	1,574	7,870	3,752
4. Randenigala ..	60	—	1,248	1,248	750	750	1,030	1,030	1,350	332	3,550	888	4,438	3,360
5. Rantambe ..	—	—	—	—	—	—	—	—	650	—	487	163	650	—
6. Minipe Anicut & Trans-basin Canal ..	407	130	289	250	—	—	—	—	—	—	382	314	696	380
7. System C														
(*a*) Zone II ..	252	100	275	275	33	25	15	—	15	—	354	236	590	400
(*b*) Zone III—V ..	—	—	225	225	675	675	700	700	345	345	778	1,167	1,945	1,945
8. Access Road to 'B' ..	—	—	60	54	80	76	—	—	—	—	56	84	140	126
9. System B ..	104	95	500	300	800	480	750	450	950	295	1,242	1,862	3,104	1,620
10. Studies, Transbasin System etc. ..	57	50	—	—	—	—	—	—	—	—	50	7	57	50
11. System G ..	5	—	45	25	130	50	—	—	—	—	45	135	180	75
12. Mahaweli On-going Stages, I, II, III ..	298	172	280	90	125	—	100	—	100	—	226	677	903	262
2. Other Irrigation ..	461	310	773	418	941	307	910	270	481	179	1,482	2,084	3,566	1,484
(i) Annual Programmes ..	82	—	98	—	108	—	118	—	120	—	143	383	526	—
R.V.D.B.	35	—	35	—	35	—	35	—	35	—	—	175	175	—
Water Resources Board	5	—	5	—	6	—	7	—	7	—	20	10	30	—
Land Reclamation Board	6	—	6	—	7	—	8	—	8	—	20	15	35	—
Acquisition of Lands ..	—	—	20	—	20	—	20	—	20	—	—	80	80	—
Irrigation Dept. Annual Works ..	36	—	32	—	40	—	48	—	50	—	103	103	206	—
(ii) Five Tank Modernization	35	20	129	85	45	—	—	—	—	—	106	103	209	105
(iii) Minor Tank Rehabilitation	60	50	100	60	146	70	225	120	240	150	231	540	771	450

TABLE 19 (cont.) (Rs. Million)

	1981		1982		1983		1984		1985		1981 - 1985			
	Total	*FA*	*Total*	*FA*	*Total*	*FA*	*Total*	*FA*	*Total*	*FA*	*Foreign*	*Local*	*Total*	*FA*
(iv) Kirindi Oya Project ..	110	105	225	135	400	200	400	150	93	29	510	718	1,228	619
(v) Inginimitiya ..	50	45	60	35	93	10	88	—	17	—	216	92	308	90
(vi) Mahadiwulwewa ..	10	10	10	5	3	—	—	—	—	—	8	15	23	15
(vii) Gal Oya Water Management ..	45	35	60	36	128	27	68	—	—	—	166	135	301	98
(viii) Gin Ganga Flood Protection ..	45	45	62	62	—	—	—	—	—	—	65	42	107	107
(ix) Other medium-scale on-going Irrig. Projects ..	24	—	29	—	18	—	11	—	11	—	37	56	93	—
3. Forestry and Lands ..	102	39	143	39	136	25	125	7	73	—	138	411	579	110
(i) Annual expenditure ..	2	—	3	—	4	—	4	—	4	—	9	8	17	—
(ii) Latersol I ..	3	2	10	8	2	—	8	4	—	—	20	3	23	14
(iii) Reforrestation Programme	11	5	15	—	20	—	25	—	30	—	11	90	101	5
(iv) Land and Water Conservation in Upper Mahaweli—Fuel Wood and Forest Extension ..	50	13	69	17	64	21	41	—	—	—	67	157	224	15
(v) Forest Inventory ..	1	—	3	2	6	4	4	3	—	—	9	5	14	9
(vi) Reafforestation in degraded Rubber lands—	3	—	4	—	4	—	5	—	6	—	—	22	22	—
(vii) Singha Raja M & B —														
L.D.D. Environment Programme ..	2	—	2	—	2	—	3	—	3	—	—	12	12	—
Land Commissioner's Programme ..	19	9	23	—	25	—	30	—	30	—	—	127	127	9
Agriculture Base Mapping	10	9	13	11	9	—	5	—	—	—	20	17	37	20
SL/Swiss Satellite Imagery ..	1	1	1	1	—	—	—	—	—	—	2	—	2	2

TABLE 19 (contd.)

(Rs. Million)

	1981		1982		1983		1984		1985		1981 - 1985			
	Total	*FA*	*Total*	*FA*	*Total*	*FA*	*Total*	*FA*	*Total*	*FA*	*Foreign*	*Local*	*Total*	*FA*
4. Field and Minor Export Crops ..	665	252	635	284	686	290	709	323	498	262	1,319	1,874	3,193	1,411
Land Reform Commission	215	—	200	—	200	—	135	—	—	—	—	750	750	—
Other Annual ..	35	6	38	—	46	—	48	—	60	—	22	205	227	6
Regional Fertilizer Stores & Mixing Plant, Maho ..	40	40	71	45	71	36	70	36	—	—	189	63	252	157
NADSA Tree Crop Diversification I ..	32	16	—	—	—	—	—	—	—	—	16	16	32	16
Sevanagala Sugar Project	120	100	121	105	190	120	180	101	130	54	523	218	741	480
Rice Mill Stores etc. ..	94	3	25	—	—	—	—	—	—	—	36	83	119	3
15 Nos. Warehouses ..	14	10	10	—	—	—	—	—	—	—	5	19	24	10
Anuradhapura Dry Zone Project	25	18	57	45	61	49	156	120	160	129	214	245	459	361
Rice Research and Soya Bean Research ..	5	5	17	17	20	20	10	10	—	—	45	7	52	52
Field Crop Research & Development ..	9	8	27	17	23	15	—	—	—	—	45	14	59	40
Extension & Adaptive Research	32	32	38	30	30	24	60	25	81	41	120	121	241	152
Horticulture Project ..	1	1	4	2	10	5	10	6	15	7	26	14	40	21
Other Research & Extension Projects ..	43	13	27	23	35	21	40	25	52	31	78	119	197	113

Table 19 (contd.) (Rs. Million)

	1981		1982		1983		1984		1985		1981 - 1985			
	Total	FA	Total	FA	Total	FA	Total	FA	Total	FA	Foreign	Local	Total	FA
5. Plantations	220	118	511	260	661	324	718	351	638	299	781	1,967	2,748	1,352
Annual Programmes including contributions to Silk & Cashew and other Corpns.	27	—	25	—	26	—	26	—	26	—	—	130	130	—
Annual Contribution to the Coconut Industry ..	51	—	63	—	70	—	70	—	70	—	—	324	324	—
Small Holder Rubber Project	27	19	59	39	79	45	117	68	161	82	106	337	443	251
Tea Rehabilitation I ..	55	54	93	65	87	59	87	59	87	59	131	278	409	296
Estate Housing, Health and Family Welfare Project ..	6	6	—	—	—	—	—	—	—	—	6	—	6	6
Rehabilitation of Cyclone Damaged Coconut Area ..	30	18	20	18	20	18	20	18	3	—	51	42	93	72
Integrated Tea Development Project—ADB ..	24	21	72	33	114	52	156	72	114	52	168	312	480	230
Coconut Rehabilitation Project—ADB ..	—	—	25	6	121	54	129	58	56	25	165	166	331	143
Second Tea Rehabilitation Project—IDA ..	—	—	154	101	144	96	113	76	121	81	159	373	532	354
6. Animal Husbandry ..	115	32	191	49	118	42	88	18	97	25	266	281	547	166
Annual expenditure—subsidies, buildings, machinery & equipment	27	—	40	—	45	—	45	—	50	—	78	129	207	—
IDA/Sri Lanka Dairy Project	15	12	20	14	20	14	20	14	32	25	79	28	107	79
Muthukandiya Project ..	2	2	1	1	—	—	—	—	—	—	3	—	3	3
Provender Plant	9	5	17	13	31	22	8	4	—	—	40	25	65	44
Foot & Mouth Disease Vaccine Unit	7	7	3	3	—	—	—	—	—	—	10	—	10	10
Netherlands Grant for Poultry Development ..	3	3	3	3	—	—	—	—	—	—	6	—	6	6
Sri Lanka/Swiss Livestock Project	3	2	12	7	12	6	—	—	—	—	15	12	27	15

TABLE 19 (contd.)

(Rs. Million)

	1981		1982		1983		1984		1985		1981 - 1985			
	Total	*FA*	*Total*	*FA*	*Total*	*FA*	*Total*	*FA*	*Total*	*FA*	*Foreign*	*Local*	*Total*	*FA*
6. **Animal Husbandry (contd.)**														
Other aided projects (German and SIDA assisted) ..	1	1	8	8	—	—	—	—	—	—	9	—	9	9
NLDB Programme	6	—	10	—	10	—	15	—	15	—	—	56	56	—
Additional Stores	7	—	4	—	—	—	—	—	—	—	4	7	11	—
Solvent Extraction Plant ..	16	—	—	—	—	—	—	—	—	—	8	8	16	—
Sterilised Milk Plant, Galle	4	—	—	—	—	—	—	—	—	—	2	2	4	—
Milk Processing Plant, Jaffna	3	—	—	—	—	—	—	—	—	—	2	1	3	—
Modernization of existing Provender Plant ..	12	—	3	—	—	—	—	—	—	—	10	5	15	—
7. **Fisheries** ..	178	46	169	60	220	101	152	70	132	61	434	417	851	338
Fisheries Corporation	7	—	7	—	8	—	8	—	8	—	13	25	38	—
Fishery Harbours Corpn.	7	—	7	—	8	—	10	—	10	—	30	12	42	—
Subsidy on coastal boats (850) ..	35	—	40	—	50	—	14	—	—	—	—	139	139	—
Coast Conservation ..	13	—	7	—	7	—	8	—	8	—	23	20	43	—
Other Annual ..	33	—	29	—	18	—	19	—	20	—	48	71	119	—
East Coast Fisheries Project	19	8	10	7	7	—	—	—	—	—	28	8	36	15
North West Coast Project	43	30	41	35	35	25	19	—	—	—	98	40	138	90
West Coast Fisheries Project	—	—	15	10	68	65	63	63	79	58	146	79	225	196
Fishing Technology Unit	3	2	5	4	8	6	9	7	7	3	24	8	32	22
Bottom Long-lining ..	2	1	2	1	3	2	—	—	—	—	5	2	7	4
Cage Culture ..	2	1	—	—	—	—	—	—	—	—	1	1	2	
Aqua Culture ..	11	4	3	2	4	3	2	—	—	—	14	6	20	
Fish Technology ..	3	—	3	1	4	—	—	—	—	—	4	6	10	1

TABLE 19 (contd.)

II. INDUSTRIES

(Rs. Million)

	1981		1982		1983		1984		1985		1981 - 1985			
	Total	FA	Total	FA	Total	FA	Total	FA	Total	FA	Foreign	Local	Total	FA
II. Industry	134	45	82	18	60	16	39	2	38	—	198	155	353	81
(i) Annual contributions & other programmes of the Ministry	28	2	24	—	28	—	29	—	31	—	70	70	140	2
(ii) Steel Factory Stage II ..	8	3	1	—	—	—	—	—	—	—	3	6	9	3
(iii) Urea Factory ..	31	30	3	—	—	—	—	—	—	—	27	7	34	30
(iv) Industrial Development Board (a) SMI—I ..	7	6	1	—	—	—	—	—	—	—	6	2	8	6
(b) SMI—II ..	—	—	22	18	22	16	3	2	—	—	36	11	47	36
(v) Textile Finishing Plant, Pugoda	27	—	3	—	—	—	—	—	—	—	18	12	30	—
(vi) Textile Research & Training Institute ..	7	3	14	—	1	—	—	—	—	—	16	6	22	3
(vii) Garment Training Institute	2	1	—	—	—	—	—	—	—	—	1	1	2	1
(viii) Powerloom & Finishing Plants etc.	18	—	8	—	3	—	—	—	—	—	10	19	29	—
(ix) Small Industries Dept.	6	—	6	—	6	—	7	—	7	—	11	21	32	—

TABLE 19 (contd.)

III. HOUSING, WATER SUPPLY AND URBAN DEVELOPMENT

(Rs. Million)

	1981		1982		1983		1984		1985		1981 - 1985			
	Total	*FA*	*Total*	*FA*	*Total*	*FA*	*Total*	*FA*	*Total*	*FA*	*Foreign*	*Local*	*Total*	*FA*
1. Housing and Other Construction	909	479	1,004	543	1,087	527	1,075	511	1,041	475	1,681	3,435	5,116	2,535
—*Of which Housing* ..	(720)	(458)	(703)	(450)	(770)	(450)	(790)	(450)	(770)	(450)	(938)	(2815)	(3,753)	(2,258)
(i) Urban Housing ..	238	—	238	—	300	—	300	—	270	—	740	606	1,346	—
(ii) Aided Self-help and Electoral Housing ..	450	450	450	450	450	450	450	450	450	450	450	1,800	2,250	2,250
(iii) Slum & Shanty Improvement	32	8	15	—	20	—	40	—	50	—	39	118	157	8
(iv) IDA—Construction Industry Project ..	—	18	140	90	149	75	99	61	49	25	183	254	437	269
(v) Other Construction ..	160	3	132	3	140	2	152	—	185	—	231	538	769	8
(vi) Annual Programmes ..	2	—	2	—	3	—	3	—	4	—	3	11	14	—
(vii) Cultural Development, Archaeology & Museum	27	—	27	—	25	—	31	—	33	—	35	108	143	—
2. Water Supply	613	332	929	535	967	600	575	287	416	146	2,117	1,383	3,500	1,900
(i) South West Coast W.S.S.—Stage I ..	253	109	144	33	29	1	39	—	10	—	285	190	475	143
(ii) Greater Colombo W.S.S. II & Sewerage ..	8	7	307	214	580	427	485	284	378	143	1,055	703	1,758	1075
(iii) Matara-Dikwella W.S.S.	81	49	125	39	91	17	16	—	—	—	188	125	313	105
(iv) Trincomalee W.S.S. ..	210	167	253	184	121	65	—	—	—	—	380	204	584	416
(v) Jaffna W.S.S. ..	1	—	78	65	37	25	4	—	—	—	72	48	120	90
(vi) Other Schemes ..	60	—	22	—	109	65	31	3	28	3	137	113	250	71
3. Urban Development ..	165	—	40	—	—	—	—	—	—	—	41	164	205	—
(i) Parliamentary Complex, Kotte	165	—	40	—	—	—	—	—	—	—	41	164	205	—

TABLE 19 (contd.)

IV. ECONOMIC OVERHEADS SECTOR

(Rs. Million)

	1981		1982		1983		1984		1985		1981 - 1985			
	Total	*FA*	*Total*	*FA*	*Total*	*FA*	*Total*	*FA*	*Total*	*FA*	*Foreign*	*Local*	*Total*	*FA*
1. Transport	1,033	337	957	416	889	314	767	207	366	—	2,832	1,180	4,012	1,274
Railway—														
Track Rehabilitation Project	68	40	100	60	80	—	—	—	—	—	186	62	248	100
Instalment Payments on previous purchases (including 16 locos from U.K.) ..	119	—	130	—	121	—	120	—	117	—	607	—	607	—
130 Rumanian Coaches (3rd Batch)	115	—	79	—	83	—	95	—	95	—	467	—	467	—
Rail track for Urea Project	6	—	5	—	5	—	—	—	—	—	10	6	16	—
Construction of Permanent way	4	—	4	—	4	—	4	—	4	—	10	10	20	—
Construction of signalling and rehabilitation of C.T.C. System ..	11	—	7	—	6	—	5	—	5	—	27	7	34	—
Plant and Machinery for C.M.E. and SRS Department	16	—	4	—	2	—	1	—	5	—	28	—	28	—
Construction of Buildings and Sturctures ..	2	—	2	—	2	—	2	—	2	—	3	7	10	—
Rehabilitation of Wagons and Carriages ..	25	—	—	—	—	—	—	—	—	—	14	11	25	—
4-Axel wagons ..	65	—	—	—	—	—	—	—	—	—	59	6	65	—
Improved Communication System including Maradana-Fort line ..	23	—	—	—	—	—	—	—	—	—	18	5	23	—
SLCTB—														
Road Transport—IDA Project	398	260	390	[illegible]	346	244	261	132	—	—	929	466	1,395	929
Training Shop ..	7	7	—	—	—	—	—	—	—	—	7	—	7	7
Highways—														
Road Rehabilitation Project—IDA ..	42	30	106	63	107	70	143	75	—	—	199	199	398	238
Improvements to Roads and Bridges	132	—	130	—	133	—	136	—	140	—	268	403	671	—

TABLE 19 (contd.)

(Rs. Million)

	1981		1982		1983		1984		1985		1981 - 1985			
	Total	FA	Total	FA	Total	FA	Total	FA	Total	FA	Foreign	Local	Total	FA
2. **Power** (*C.E.B.*)	749	515	431	310	504	311	446	115	431	—	2,225	336	2,561	1,251
Bowetenna	57	26	—	—	—	—	—	—	—	—	37	20	57	26
Canyon	50	20	119	79	103	63	—	—	—	—	177	95	272	162
Rural Elec. ADB/OPEC ..	311	311	—	—	—	—	—	—	—	—	311	—	311	311
Transmission IV ..	100	100	231	231	248	248	115	115	—	—	694	—	694	694
Thermal Stage II ..	58	58	—	—	—	—	—	—	—	—	58	—	58	58
Thermal Stage I ..	43	—	—	—	—	—	—	—	—	—	43	—	43	—
RE Programme ..	5	—	—	—	—	—	—	—	—	—	3	2	5	—
Parity changes ..	6	—	6	—	6	—	6	—	6	—	30	—	30	—
Transmission VI ..	—	—	—	—	100	—	300	—	300	—	700	—	700	—
Parliamentary Complex (Kotte)	52	—	20	—	—	—	—	—	—	—	50	22	72	—
FTZ—Katunayake & Biyagama	29	—	24	—	16	—	9	—	9	—	61	26	87	—
Samanalawewa Project ..	—	—	—	—	—	—	—	—	100	—	—	100	100	—
Electrical Department ..	16	—	16	—	16	—	16	—	16	—	56	24	80	—
Kandyan Peasantry ..	22	—	15	—	15	—	—	—	—	—	5	47	52	—
3. **Posts and Telecommunications**	300	151	526	336	572	339	422	259	263	106	1,517	567	2,084	1190
CADS—II ..	18	13	25	16	5	—	5	—	—	—	37	16	53	29
Indo-Sri Lanka Micro-wave	7	5	—	—	—	—	—	—	—	—	5	2	7	5
OCADS—II ..	45	35	50	35	97	70	5	—	—	—	155	42	197	140
Rural Exchanges ..	54	40	50	35	30	20	50	35	56	40	187	54	241	170
Training Centre ..	10	2	11	—	—	—	—	—	—	—	11	10	21	2
IDA Project ..	10	5	200	183	213	160	213	160	134	66	539	231	770	574
Cyclone Area ..	45	30	28	15	28	15	5	—	—	—	74	32	106	60
Parliamentary Complex (Kotte)	38	20	23	12	32	18	—	—	—	—	65	28	93	50
CADS III	—	—	50	40	70	56	80	64	—	—	140	60	200	160
General Development ..	17	—	20	—	20	—	20	—	25	—	71	31	102	—
OTS Equipment ..	14	1	15	—	16	—	23	—	23	—	91	—	91	1
I.O.COM Cable ..	3	—	3	—	3	—	—	—	—	—	9	—	9	—
I.P.Z. Katunayaka & Biyagama	16	—	31	—	38	—	—	—	—	—	64	21	85	—
P. Vehicles & Equip. ..	12	—	10	—	10	—	10	—	13	—	55	—	55	—
Blds. & Const. ..	11	—	10	—	10	—	11	—	12	—	14	40	54	—

TABLE 19 (contd.)

(Rs. Million)

	1981		1982		1983		1984		1985		1981 - 1985			
	Total	*FA*	*Total*	*FA*	*Total*	*FA*	*Total*	*FA*	*Total*	*FA*	*Foreign*	*Local*	*Total*	*FA*
4. Other Programmes of Economic Overheads ..	1,630	208	1,575	273	1,791	429	1997	546	1,776	372	3,622	5,147	8,769	1,828
(i) Integrated Rural Development	196	153	315	240	377	283	350	246	280	186	558	960	1,518	1,108
—Kurunegala ..	56	39	100	66	130	86	130	86	100	66	206	310	516	343
—Matara ..	18	18	15	15	12	12	—	—	—	—	20	25	45	45
—Hambantota ..	19	19	35	35	35	35	—	—	—	—	34	55	89	89
—Nuwara Eliya ..	18	18	40	40	50	50	40	40	—	—	54	94	148	148
—Matale & Puttalam ..	85	59	125	84	150	100	180	120	180	120	244	476	720	483
(ii) Other—Ministry of Plan Implementation expenditure including Fertilizer Secretariat ..														
	35	25	10	—	10	—	12	—	12	—	39	40	79	25
(iii) Decentralized Budget ..	420	—	420	—	420	—	420	—	420	—	420	2,100	2,100	—
(iv) Contribution to Airport Authority and Airport Development Project ..	40	—	80	—	100	—	150	—	150	—	100	420	520	—
(v) G.C.E.C.	60	—	60	—	60	—	60	—	—	—	60	180	240	—
(vi) Colombo Port Development	—	—	33	33	146	146	300	300	186	186	665	—	665	665
(vii) Dock Yard Repair Project	30	30	—	—	—	—	—	—	—	—	30	—	30	30
(viii) Annual Programmes of the Economic Overeads Sector	563	—	458	—	460	—	465	—	469	—	1,449	966	2,415	—
(ix) Administrative Overheads	286	—	199	—	218	—	240	—	259	—	721	481	1,202	—

TABLE 19 (contd.)

V. SOCIAL OVERHEADS

(Rs. Million)

	1981		1982		1983		1984		1985		1981 - 1985			
	Total	FA	Total	FA	Total	FA	Total	FA	Total	FA	Foreign	Local	Total	FA
V. Social Overheads	455	98	656	51	729	45	753	35	703	21	1,305	1,991	3,296	250
1. Education—	262	24	435	—	459	—	473	—	471	—	577	1,523	2,100	24
(a) General Education	113	24	166	—	201	—	214	—	227	—	184	737	921	24
(b) Technical & University	149	—	269	—	258	—	259	—	244	—	393	786	1,179	—
2. Health	133	38	156	14	202	1	199	—	206	—	532	364	896	53
of which														
(a) equipment	43	—	67	—	90	—	96	—	101	—	365	32	397	—
(b) NIHS Kalutara	13	11	11	—	12	—	14	—	15	—	30	35	65	11
(c) Sterile Water Plant	15	10	24	13	26	—	15	—	—	—	56	24	80	23
(d) Anti-Malaria Campaign	8	8	5	—	2	—	2	—	—	—	13	4	17	8
(e) Sri Jayewardenepura Hospital	10	—	—	—	—	—	—	—	—	—	3	7	10	—
Other	44	9	49	1	72	1	72	—	90	—	65	262	327	11
3. Other Social Services	60	36	65	37	68	44	81	35	26	21	196	104	300	173
(a) Ministry of Social Services	23	21	23	21	24	21	25	21	26	21	105	16	121	105
(b) Labour Ministry: Foreman Training Institute	22	15	10	6	10	6	16	—	—	—	30	28	58	27
Vocational Training Centres & Others	7	—	11	4	14	7	15	4	—	—	23	24	47	15
(c) NAB Technical Institute, Katubedde	3	—	20	6	20	10	25	10	—	—	38	30	68	26
Other	5	—	1	—	—	—	—	—	—	—	—	6	6	—