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PROGRAMME PLANNING

Country and intercountry programmes and projects

FOURTH COUNTRY PROGRAMME FOR SRI LANKA*

<u>Programme period</u>	<u>Actual resources programmed</u>	\$
1987-1991	IPF for 1987-1991	41 800 000
	Balance from third cycle	3 362 000
	Other resources programmed	<u>2 300 000</u>
	Total	47 462 000

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* Detailed listings of projects and other related data prepared as part of the country programming exercise are available on request. These listings include: (a) ongoing projects; (b) project pipeline; (c) distribution of resources by objective; (d) planned activities of operational funds and programmes under the authority of the Administrator; and (e) distribution of new country programme by sector.

I. DEVELOPMENT TRENDS, STRATEGIES AND PRIORITIES

A. Current economic trends

1. The radical economic and financial policy changes introduced in 1977 with the adoption of an open economy approach and encouragement of private sector participation have led to remarkable improvements in the Sri Lankan economic situation. Gross domestic product (GDP) grew at an annual rate of 5.8 per cent during 1978-1985, more than double the rate prior to 1977. Investment increased from 15 to 27 per cent of GDP. Major development programmes were launched, including the massive multi-purpose Accelerated Mahaweli Programme, which aims to generate power, expand irrigation and provide land for settlements. Increases in rice production and investments in power have reduced food and energy imports. Improved industrial incentives have promoted expanded production, notably of garments. The more realistic exchange rate and opportunities in the Middle East encouraged foreign employment; private remittances have provided considerable foreign exchange.

2. Though economic performance has improved, the Government has to contend with certain negative trends, both internal and external, some of a long-term nature. The actual 1985 GDP growth rate of 5 per cent, while still creditable, was lower than expected. This shortfall stemmed mainly from low commodity prices and the impact of ethnic disturbances after 1983. The prices of Sri Lankan traditional exports (tea, rubber and coconut), which still account for almost half of the country's exports, were severely depressed. Tea prices in particular declined more than 50 per cent after peaking in 1984. Garment exports stagnated because of quotas in importing countries. The shortfall in foreign exchange receipts was aggravated by the drop in tourism earnings and the levelling-off of private remittances, as employment opportunities in the Middle East declined after the fall in oil prices. These economic difficulties were compounded by the ethnic conflict, which not only diverted funds to increased defence expenditure, but also reduced agriculture, fisheries, transport and tourism in the areas affected.

3. The decline in export receipts and export tax revenues led to imbalances in both the budget and the balance of payments. Domestic resource mobilization in 1985 was inadequate to meet expenditure levels. Efforts to contain public expenditure proved difficult because of the large public investments undertaken by the Government, substantial transfers to public enterprises and increases in defence expenditure. The budget deficit rose from 8 per cent of GDP in 1984 to 13.9 per cent in 1985. The balance of payments current account deficit reached 9.6 per cent of GDP, while the debt service ratio exceeded 20 per cent in 1985. However, the annual inflation rate fell from 16.3 to 1.5 per cent, because of satisfactory domestic supplies and policies designed to stabilize prices.

4. Reversing these adverse trends constitutes the main concern of current Government economic policy. The steps planned include controls on public expenditure and improvements in the performance of public enterprises. Current expenditure of all ministries has been cut in 1986 by 5 per cent, the only exceptions being counterpart commitments for foreign aid and expenditures on

national security. A wage freeze has been introduced, no new posts are being created and filling existing vacancies requires prior Treasury approval. Several public enterprises have not generated a reasonable return on Government investment and some have depended on the Government budget for survival. Measures such as closure, privatization or performance improvement are being taken to reduce this persistent drain on the budget.

5. The Government hopes to reduce the current account deficit and maintain foreign exchange reserves at no less than two months of imports. To this end, a flexible exchange rate policy will be followed. Export-oriented foreign investments are being actively pursued to attract foreign capital, bring in technical know-how and create employment. The export base, though more diversified now than it was a decade ago, still needs to be broadened. This is naturally a long-term process and a breakthrough is difficult with world trade stagnating. The Government will also re-examine the incentive framework for export diversification. A comprehensive rehabilitation programme is under way for the tree crops sector, which still remains the country's principal source of foreign exchange.

6. In an attempt to resolve the ethnic problem, the Government has made far-reaching proposals based on a substantial measure of provincial autonomy in a unitary state. It is hoped that these initiatives, currently being discussed at various levels, will form the basis for a political solution.

7. The Government considers that future growth can be sustained by domestic forces when heavy investments, such as the Mahaweli Programme, start to show returns. For the period 1986-1990 the Government has decided to restrict public investment to a more manageable level of 11 per cent of GDP, so as to relieve the budget, release a bigger share of investible resources to the private sector and reduce pressure on the balance of payments. In view of external and internal constraints, a slightly lower GDP growth rate of 4.4 per cent per annum for the period 1986-1990 is projected.

B. National development strategies

8. Current development strategy aims at consolidating and extending the achievements stemming from the liberalization policies introduced in 1977, while taking measures to correct certain structural weaknesses that have arisen in the economy.

9. The Government continues to give priority to GDP growth, though aiming at a lower growth rate because of economic constraints; to building up a dynamic industrial sector; to developing exports; to generating more employment; and to fostering a more active role for the private sector, both domestic and foreign, with a corresponding scaling down of the public sector's role in the economy, especially as a major industrial entrepreneur.

10. These concerns underlie the current Public Investment Programme (PIP) for the period 1986-1990 prepared by the Ministry of Finance and Planning. The PIP indicates development policy parameters while outlining a national investment strategy.
11. Food and nutrition: Food production has improved considerably in the last eight years, particularly rice production, where Government incentives policies had the greatest impact. With a yield increase of 35 per cent, Sri Lanka has now reached self-sufficiency in rice. The thrust of the agricultural programme is now to diversify production while sustaining growth, at a lower rate, in paddy production. Other priorities include increasing production of sugar, milk and livestock products, fish products and pulses as well as rice to reach self-reliance in food crops, enhance food security and improve the nutritional status of the population, particularly of vulnerable groups. The National Agriculture, Food and Nutrition Strategy reflects the consensus reached by the ministries concerned on policy and implementation measures, now under way.
12. Exports: Sri Lanka still depends heavily on the traditional exports of tea, rubber and coconut. Other export products are minor agricultural crops, such as spices, fruits, vegetables and coffee, petroleum products and other industrial products, such as garments, wood, ceramics and leather. Despite the incentives of an industrial free trade zone and freer access to imported inputs, the export base remains narrow. Recent trade trends have highlighted again the urgent need for an increasingly diversified and expanded export sector, capable of substantially increasing export earnings to balance the liberalization of imports. The Government is therefore concentrating its efforts on new lines as defined in the National Export Development Plan.
13. A Medium-Term Investment Programme is being implemented to rehabilitate the plantation sector with help from the World Bank, the Asian Development Bank (AsDB), the United Kingdom, Norway and the Netherlands. The current focus is on the state plantations; the Government plans to launch programmes for private plantations and smallholders in 1987.
14. Industry: This objective is linked to export diversification and expansion, the major target being industries with high value added. The Government aims to increase industry's share of GDP from 14 per cent to 25-30 per cent. The private sector is to play a leading role in new industrial undertakings. The viability and efficiency of several public sector enterprises has been examined, and some have been closed. The Government has also set up an Industrial Policy Committee to report in 1987.
15. The private sector: The Government expects the private sector to be more dynamic and provide a greater share of investment. It intends to scale down the share of public sector investment in GDP, confining it mainly to economic infrastructure and services. The PIP clearly enunciates the principle of investing Government resources only in commercially-oriented activities as initial seed capital to encourage private investment.

16. Infrastructure: Government policy includes a series of measures to develop and rehabilitate the infrastructure. Priority in resource allocation will go to operating and maintaining existing assets, expanding existing capacity to meet demand and upgrading services.
17. Another goal is reforming the administrative system to increase the efficiency of the public service, which will be reoriented to supporting the growth of private economic activity; its capacity to plan and execute projects and policies will be improved and its structure streamlined. An Administrative Reforms Committee will advise the Government on appropriate solutions.
18. The rehabilitation and development of existing economic assets, especially in telecommunications, road and rail transport, power, irrigation and urban and rural development also call for urgent action.
19. Social gains will be consolidated. The social overheads programme, which covers health, education and social welfare, has been exempted from the reductions in public expenditure planned for the period 1986-1990. Education at all levels - general, technical and university - will be promoted as part of human resources development efforts. Health management will be accented, along with family planning and nutrition education programmes; social welfare is being improved through a revised food stamps programme for poverty groups.
20. Employment and income: In all sectors efforts will be made to increase incomes and generate employment, particularly in rural areas. Developing entrepreneurial capacity, particularly self-employment ventures for youth and women, will be stressed.
21. Instruments for reconciling long-term development objectives with short-term political stability include inter-sectoral exercises such as the National Agriculture, Food and Nutrition Strategy, the Medium-Term Investment Plan for tree crops, and sector-oriented measures, such as the Transport Master Plan and the Least-Cost Energy Programme. The reports of ongoing studies on industrial policy, agricultural pricing and administrative reforms should provide further guidance for economic and administrative reforms to support and accelerate growth.

C. Technical co-operation priorities

22. An assessment of technical co-operation needs and priorities for UNDP assistance in particular has been undertaken in the context of PIP. This assessment was also based on studies by the Department of External Resources of the Ministry of Finance and Planning of aid utilization and of the aid pipeline in various economic sectors carried out during the past three years and consultations among the Department of External Resources, the National Planning Division, UNDP and the appropriate Ministries during the preparation of the country programme. A framework outlining technical assistance needs and priorities from which the areas for UNDP assistance were selected was prepared. The framework will also be used by the Department of External Relations to indicate technical assistance needs not met by UNDP to bilateral donors.

23. The framework follows closely the development strategy reviewed above and covers (a) food production (b) export development (c) industrial development (d) administrative and institutional infrastructure development (e) economic infrastructure development (f) social infrastructure development and (g) employment generation. A summary of priority areas for technical assistance is given below.

24. Food production: Technical assistance is required for rice milling technology to reduce waste and improve quality; developing paddy varieties with better grain quality suitable for areas whose potential is limited because of soil and climatic conditions; crop research and development of support services for diversification from paddy to other crops; introducing new sugarcane varieties suitable for rainfed conditions; improving veterinary and livestock extension services; training veterinarians and improving animal quarantine and disease control; training fisheries extension staff; support to deep sea, coastal and inland aquaculture research; technical support to the National Agricultural Pricing Cell; and research and experimentation with rural credit schemes to meet better the needs of the farmers and the rural poor.

25. Export development: Institutional support is required to implement the Medium-Term Economic Plan for tree crops. Agronomic and economic research on tea, rubber and coconut calls for strengthening and the processing must be improved to respond better to international market requirements. The Export Development Board needs support to provide up-to-date market advice to exporters, to give technical guidance in developing promising products and to train entrepreneurs. The foreign investment promotion bodies need further help in attracting foreign investment. The extension services for minor export crops such as beverages and spices, need strengthening to make farmers more quality-conscious.

26. Industry: Research in product development with emphasis on agro-based products is a high priority. Research and training institutes in textiles, foundry, computer-aided design and manufacture and sericulture need to be developed further. Access to modern manufacturing technology is required. Standardization and quality control for local consumer protection, as well as for exports needs to be developed. The rural industrial sector needs a better information base to promote the exchange of contracts and to permit smaller enterprises to supply larger export-oriented companies. Technological improvements must reach cottage and rural industries.

27. Administration and planning: Technical support is required for the Administrative Reforms Committee (ARC) to prepare recommendations on reforming the public service. Advice and training is needed in regional planning, macro-economic planning and the strengthening of ministerial planning cells. Short-term technical advice is required to help prepare the agricultural, industrial and population censuses. Other needs include training and data-processing equipment to improve aid-co-ordination; technical advice and management training for the public corporations; and advice and training on computerizing and microfiling the 3 million files of the Employees' Provident Fund.

28. Economic infrastructure: Technical assistance is required to maximize the benefit from heavy investment in irrigation, settlement schemes, housing, forestry, power and energy, transport, posts and telecommunications, as well as to plan for their development. Specific requirements include: improving the management of irrigation projects; settlement planning and training of staff working in settlement schemes, upgrading the Institute of Survey and Mapping; feasibility studies for new irrigation/multi-purpose projects; research in low-cost building materials and sanitation to support the Million Houses Programme; energy conservation; the implementation of the Forestry Master Plan; landslide hazard mapping; advice and training in road maintenance, management training at the Sri Lanka Transport Board and the upgrading of its driving schools; setting up navigational aids training at the Civil Aviation Training Centre; the short-term training of staff of the Civil Aviation Department; training in port operations; upgrading telecommunication training centres; establishing a test and development centre for software development for the digital exchanges; training in postal management and administration.

29. Social areas notably education, health, social welfare and culture: Technical assistance is required to upgrade the curricula in primary and secondary education, to expand the Open University, to improve the 10 technical colleges which remain to be upgraded, to strengthen research in various fields at Universities and other institutions and to provide training in computer applications. Health needs include improvement in health management, training of nurse midwives, family planning, improvement of the health information system, setting up a proper food inspection and water quality control system, a study of rural water supply and preparation of a strategy for the next decade, strengthening the role of traditional medicine, research in the control of various diseases, advice and training for the Medical Research Institute, and advice to arrest drug abuse. In social welfare, assistance to the disabled is required, along with training of staff in probation and child care. Assistance is also needed in disaster relief co-ordination, once a focal point has been set up for this purpose. In culture, assistance is required in the preservation of cultural monuments, ancient objects and documents.

30. Employment generation: Assistance is needed to launch an entrepreneurial development programme for youth in rural areas, to expand vocational training in various trades, and to develop a national policy for vocational training of the disabled. Assistance is also required to strengthen women's awareness of their legal rights and to set up income-generating programmes for them.

D. Aid co-ordination

31. Aid negotiation, co-ordination and use are the responsibility of the Department of External Resources; a Presidential circular bars ministries and departments from approaching donors directly.

32. Annual aid consortium meetings are held in Paris under World Bank auspices. In Colombo, UNDP acts as the convenor of regular donor meetings in which the Department of External Relations and the National Planning Division participate.

The local meetings usually concentrate on a particular sector or programme, discussing Government policy and reviewing the various projects that are being implemented or likely to be taken up.

33. During the fourth country programme, institutional capacity of the Department of External Relations will be strengthened through training locally or abroad. With Commonwealth Fund for Technical Co-operation (CFTC) support, the Department has also recently started a project recording and debt monitoring unit. As a complement, under this country programme a simple computerized data bank will be set up to record and report capital and technical assistance projects being implemented or in the pipeline, and to present assistance requirements in a standard format. The unit will function in close co-operation with the UNDP Office, with which there will be a mutual exchange of data.

II. THE COUNTRY PROGRAMME

A. Assessment of current country programme

34. The implementation of the third country programme (1984-1986) followed closely the programme presented to the Governing Council in June 1983. A total of 64 projects - 90 per cent of those identified - were successfully implemented, for which \$25.6 million of UNDP assistance was approved. A few were not taken up, as the area was adequately covered by a bilateral donor or a multilateral bank.

35. When UNDP resources were reduced in 1983 to 55 per cent of the illustrative IPF, the allocations for all planned projects were reduced across the board by 25 per cent. Scaling down project budgets frequently meant that important inputs could not be provided. However, a reallocation of resources was achieved later when some projects were dropped, so that the original funding levels were eventually sustained for most projects. This experience has led the Government to decide that, if resources for the country programme are reduced, it would be more prudent to delete entire projects rather than to resort to general reductions.

36. The assessment of UNDP co-operation, which constituted about 10 per cent of the total technical assistance received by Sri Lanka during the period 1980-1986 concluded that virtually all projects reached or came close to reaching their objectives. The UNDP programme made a valuable contribution to Sri Lankan development efforts in that the country programme continued to reflect the priorities of the annually updated PIP.

37. As certain weaknesses in the design of earlier projects became evident during their implementation, particular attention was paid to improving the design of new projects. In some cases, this led to delays in the approval process and therefore temporary reductions in delivery, but it contributed to a better programme, improved project quality and accelerated implementation. This stress on quality will be maintained during the fourth country programme.

38. The number of national project co-ordinators increased substantially during the third country programme, reflecting increased Government capacity to manage

UNDP projects. Even more significant was the employment of national consultants, which has become a distinctive feature of the Sri Lanka programme. Highly qualified nationals were recruited, most of whom had international experience, often with the United Nations system. They are drawn from various sources - the private sector, the universities and the public service. For instance, some professors and lecturers took assignments during their sabbatical leave and some retired Government officials acted as consultants. Their familiarity with the local situation and the fact that they lose no time settling in are some of the advantages gained in tapping this resource. It has also proved to be very cost-effective, with an average cost per man-month of \$600. Similarly, more use was made of local sub-contracts. These trends are expected to continue during the fourth cycle and do not detract from the multilateral character of UNDP assistance.

39. The country's limited experience with Government execution has not been particularly successful, partly because of administrative procedures which are not always practical in small projects. The Government none the less wishes to continue to experiment with project execution on a limited scale, focusing largely on increased management, which would leave most of the administrative tasks to the United Nations system.

40. The assessment underlined the need to ensure that staff and an adequate operational budget are available before new projects start. An estimate should also be made of the recurrent budget the Government will have to maintain upon completion of the project. Particular attention should be paid to the timing of UNDP inputs, especially in case of delays in building and the appointment of counterpart staff. In both areas the assessment found scope for improvement and, in view of the tight Government budget anticipated for the next few years, this aspect needs even more attention.

41. The following representative projects highlight some of the achievements of the third country programme. In the field of industry the Textile Training and Services Centre (SRL/79/054) was established to train staff of private textile mills, provide trouble-shooting consultancy services and carry out testing and quality control. Technical advice (SRL/83/019 and SRL/83/016) to the foreign investment promotion bodies, the Greater Colombo Economic Commission and the Foreign Investment Advisory Committee, has helped train their staff and attract new investments. The Sericulture project (SRL/81/015) proved that sericulture has excellent potential in Sri Lanka, helped introduce new technology and provide training covering the entire cycle from mulberry cultivation to silk reeling and weaving leading to increased production and better quality silk.

42. In infrastructure development, the Mahaweli Planning and Monitoring Unit (SRL/81/006) plays a central role in advising the management of this huge programme on measures to correct implementation shortfalls. The Land Use Planning projects, (SRL/79/058 and SRL/84/032) have set up a simple land use data bank covering most of the country and initiated land use planning at the district level in Nuwara Eliya. They will be followed by an AsDB credit in 1987, for expanding activities into other districts. The Civil Aviation Training Centre (SRL/81/009) has already trained some 350 persons and the Telecommunication Training Centres (SRL/83/015) have trained staff to match heavy capital investments under bilateral and

multilateral aid. An Urban Planning Unit (SRL/84/042) has been set up to strengthen the managerial, financial and operational performance of urban local authorities, enabling them to improve resource mobilization and to provide better service to the public. The pilot project financed by UNDP laid the ground for a \$13 million International Development Association (IDA) credit to support national implementation.

43. In the field of education, two pilot projects (SRL/81/005 and SRL/85/005) were carried out to introduce Life Skills into schools, so as to provide children with practical skills to reduce the drop-out rate and give those who are less successful academically a better chance to find employment. The Government hopes to commence nationwide implementation in 1987/1988. UNDP also helped to set up the Open University (SRL/84/022) which has already enrolled over 13,000 students. The new National Institute of Education (SRL/85/001) will plan further improvements in the education system.

44. In health, a major effort has started in traditional medicine (SRL/84/020) under which a pilot group of traditional practitioners receives training in preventive family health and efforts are made to enlist their support in the primary health care programme. The project also assesses scientifically the effectiveness of certain traditional medicines and helps modernize drug production on a modest scale. Such undertakings represent the type of projects implemented during the third country programme.

B. New programme proposal

45. The technical assistance needs assessment summarized in Part I.C. constitutes the frame of reference for the proposals contained in the fourth country programme. UNDP co-operation in the past has met critical needs in almost every sector. Since no major new initiatives can be taken the Government wishes to retain a fairly broad range of projects within the objectives outlined below so as to respond best to Sri Lanka's current needs. The number of projects will probably be reduced further in future.

46. It was noted in the third country programme document that, after the heavy public investments in the original lead projects (Mahaweli, free trade zone and housing), the Government had started rectifying the balance of allocations in favour of economic overheads in the 1982-86 PIP. In view of the fact that the economic situation precludes heavy new investments in any field, the new programme will focus on consolidating activities started during the previous cycle. Some of the new activities had been envisaged for the previous country programme, but could not be undertaken for want of funds. In addition, the ethnic problem limits the potential for development projects and programmes, including those of UNDP, in the areas affected. As in the past, UNDP co-operation will focus on human resources development and institution-building. There will be some adjustments in the mix of UNDP inputs as described below.

47. The rapid growth in several key sectors spurred by the liberalization policies and large investment programmes undertaken with donor support has led to the

dissemination of technology and the availability of experienced personnel in certain fields. The training provided by previous country programmes also contributed considerably to the development of staff which can now be drawn upon for consultancy and training assignments.

48. Consequently, the Government expects to be able to shorten the assignments of technical advisers and to limit their number. The Government wishes to continue using national experts and local consultancy firms wherever possible. Where staff of the required level is not available - locally or internationally - on regular United Nations contracts, the Government wishes to make use of consultancy firms. United Nations Volunteers (UNV) will fill some technical posts in projects in a limited way while Sri Lankan staff are being trained.

49. The Government prefers to conduct training locally with national and international consultants, especially for larger groups and lower skill levels. Foreign training will be reserved for key personnel in specialized fields, where critical needs warrant the higher expenditure. In those cases training in the Asia and Pacific region, which provides a similar environment, is felt to suit Sri Lankan needs best.

50. The equipment component in the previous programmes has been around 20-25 per cent of the UNDP inputs. The Government expects that this level will rise somewhat because of the availability of staff better able to use such equipment, as well as the increasing importance of introducing new and fairly sophisticated technology.

51. In the case of institution-building projects, preference will be given to institutions that can sustain a reasonable level of growth with local resources upon completion of UNDP support. Experience during previous programmes has demonstrated that repeated allocations of aid to institutions may be counter-productive in the long run. This point has been carefully considered in allowing for extensions of ongoing projects.

52. The following major themes emerged from the technical assistance needs assessment; they cut across the various sectors in which activities are to be carried out:

- (a) Optimizing production of basic food items.
- (b) Diversification and expansion of exports.
- (c) Stimulating industrial growth.
- (d) Infrastructure development and rehabilitation.
- (e) Employment generation and increasing incomes.

53. Basic foods. Sri Lanka has achieved virtual self-sufficiency in rice because of a long-term research and extension effort supported by market incentives and the increased availability of inputs, particularly fertilizers, and the expansion of the irrigated area due mainly to the large-scale investments in the Mahaweli scheme now coming on stream. Further investments in irrigation and flood control and better farming methods in rainfed areas will help consolidate gains in rice production and thus conserve foreign exchange. Meanwhile, diversifying production will be emphasized further in order to use land more productively, reduce rural unemployment and under-employment, earn more foreign exchange, minimize imports and contribute to a better balanced diet for the population as a whole. This reflects the National Agriculture, Food and Nutrition strategy, which identified needs for urgent efforts in agricultural research and extension, rural credit planning and producer incentives.

54. A favourable pricing policy and adequate marketing arrangements which ensure that farmers receive the correct market signals are crucial factors. The Government therefore set up the National Agricultural Pricing Cell in January 1986 to draft pricing policies for the National Agricultural Pricing and Food Policy Committee, which decides on the prices of food commodities and the level of import tariffs. UNDP will advise and train the staff of the Cell, in close co-ordination with assistance in agricultural planning from the United States Agency for International Development (USAID).

55. Credit is essential for agricultural development, especially for diversification, which requires large new investments. The commercial banks have not met these needs successfully in spite of their extensive network of rural branches, in particular the needs of the rural poor - the small farmers and landless - who, by conventional standards, are not creditworthy. The Government has asked the International Fund for Agricultural Development (IFAD) to help develop a credit programme that meets the needs of the rural poor, and that can compete with informal sources of credit. The Government wishes UNDP to fund the preparatory phase.

56. A number of projects which started during the third country programme, most of them supporting agricultural diversification, will be extended into the fourth: promotion of fruit production (SRL/84/013); popularization of soyabean (SRL/85/004) and winged bean (SRL/83/002), and research on rainfed rice production (SRL/84/024). The last aims to increase yields in the densely populated wet zone, which should indirectly encourage the diversification of paddy lands in the irrigated areas of the dry zone to other high-value crops.

57. In co-operation with Japan, UNDP will help the Sugarcane Research Institute, established with Australian aid, train its staff and introduce and develop sugarcane varieties for rainfed conditions. Sugar production has not been very significant in Sri Lanka: less than 10 per cent of the annual consumption is produced locally. The Government aims to increase this proportion to about 50 per cent by 1995 by attracting private sector investment and introducing new varieties.

58. Fish accounts for 70 per cent of the intake of animal protein in Sri Lanka. Increased fish production is a high priority in the National Agricultural, Food and Nutrition Strategy. While coastal fisheries provide 85 per cent of the catch, more attention will be paid to developing inland fisheries. UNDP assistance is sought to train fisheries extension staff. This will complement assistance provided under the AsDB inland and coastal fisheries project. Enhanced UNDP support to the National Aquatic Resources Agency will build up Sri Lanka's capability to exploit the marine resources within the Exclusive Economic Zone. Research will focus on in-shore coastal areas and living resources, on which many Sri Lankans depend for their livelihood. UNDP support is co-ordinated with assistance provided by the Federal Republic of Germany.

59. The Government emphasizes livestock development, especially dairy and poultry, to increase employment for the rural poor and landless agricultural labourers and to increase the production of milk, meat and eggs. No UNDP involvement in the production aspects is foreseen, as sufficient bilateral and multilateral aid is available. However, the Government wishes UNDP to help expand and upgrade the Faculty of Veterinary Medicine and Animal Science at the University of Peradeniya, Sri Lanka's only institution for such training, since all livestock development programmes suffer from a lack of certified veterinarians.

60. Livestock development is also hampered by the incidence of diseases which at times reach epidemic proportions. The Government therefore seeks UNDP assistance to strengthen the infrastructure for disease prevention and control, including quarantine, vaccine production and disease surveillance.

61. Exports. The country's present balance-of-payments deficit stems largely from increased capital goods imports and external borrowing for large-scale investments. Reducing this deficit requires increased mobilization of domestic resources and cutting back imports. Traditional Sri Lankan export crops have been unable to offset rising expenditures for imports, while non-traditional products, such as minor export crops, have responded slowly to the higher incentives introduced after 1977. However, there is a considerable potential for export growth and the Government recognizes that it must now take long-term measures to widen the country's export base and to explore potential new markets for its products.

62. The Export Development Board with UNDP assistance (SRL/84/023) is promoting non-traditional export products such as textiles and garments, gems and jewellery, horticultural and floricultural products, spices, oil seeds, marine products, manufactured products and services. The Export Development Board also plays a major role in removing constraints experienced by exporters. UNDP assistance will be needed to develop promising product groups further, identify new markets and train export entrepreneurs. Mushroom cultivation has been identified as a promising area.

63. Sri Lanka has been promoting foreign private investment to supplement local capital resources, acquire technology and management know-how and obtain access to export markets. The Foreign Investment Advisory Committee and the Greater Colombo Economic Commission help attract such investment with UNDP support. In spite of the ethnic problem, foreign investors have shown continued interest in Sri Lanka.

The factories they have set up have created jobs and exported their entire output. Current efforts to diversify these industries towards skill-intensive activities, such as electronic goods, rubber products and chemicals, aim at maximizing the country's comparative advantages. Both bodies mentioned above require further UNDP-funded technical advice.

64. The rehabilitation of tree crops, traditionally a leading sector of the Sri Lanka economy, is a high priority. Low tea prices have led to lower export earnings in spite of increased production. UNDP already assists the Tea Small Holders Development Authority and will help the smallholder institutions implement the Medium-Term Investment Programme for private plantations. The Government has recognized that small holders, can be more efficient than large-scale producers.

65. UNDP assistance in the development of minor export crops (SRL/84/028) will continue during the fourth country programme. The project aims to increase the production and quality of various beverage crops and spices grown by smallholders by strengthening extension services. A ready market exists in the Middle East and increased exports are expected during the next few years.

66. Industry. This sector will play an increasingly prominent role in the country's economic development by providing additional sources of export revenue and new opportunities for efficient import substitution. The share of industrial goods in total exports is expected to grow from 28.5 per cent in 1985 to 35.3 per cent in 1990. Industrialization, notably the processing of agricultural products in the rural areas, should also create jobs and generate income. The Government intends that the private sector take the lead in industrial expansion and is therefore improving the institutional environment for industry including infrastructure and supporting services, along with the range of incentives for entrepreneurs. As several projects of the third country programme helped establish support services, the Government wishes to consolidate some of these facilities and increase their range.

67. The Textile Training and Services Centre (set up under SRL/79/054) will be further assisted to establish a techno-economic management services function. This will expand the consultancy services provided by the Centre to give comprehensive advice to the textile industry on improving quality and reducing costs.

68. The Sri Lanka Standards Institute has with UNDP support (SRL/82/003) taken on an important role in manufacturing to provide effective consumer protection and maintain consistent export quality. The Government wishes UNDP assistance to develop the Institute's standardization activities further, enable it to enter into bilateral agreements with major trading partners on inspection and testing of exports, provide consultancy services to industry, promote an independent consumer movement in Sri Lanka and set up an import inspection unit.

69. Industrial development suffers from very limited research and development capacity in both the public and private sectors. To stimulate research and product development the Government requests UNDP support for the Ceylon Institute for Scientific and Industrial Research for applied research focused on agro-based products.

70. The use of computers in Sri Lankan industry is rapidly expanding. So that industry can reap the maximum benefit, engineering education should be modified to include computer applications in product design and manufacture, process control and instrumentation and production planning and control. At the University of Moratuwa, the country's largest technical faculty, a facility for training in computer-aided design and manufacture will be set up. The University has close links with industry, to which it will extend consultancy services.

71. Sri Lanka faces severe problems in process metallurgy. High-quality iron and steel castings have had to be imported because the country's foundries have not provided its engineering industry adequately. UNDP will help improve foundry technology by upgrading the training foundry at the Industrial Development Board, setting up training in all aspects of foundry technology and providing advisory services to private foundries.

72. Less than 10 per cent of Sri Lanka's rubber is processed locally into tyres, whose manufacture accounts for some 70 per cent of the world's consumption of natural rubber. The Government wishes UNDP to help set up training and to improve the quality and quantity of the tyres produced by both the Sri Lanka Tyre Corporation, the country's largest tyre factory, and the smaller private companies. As the Corporation is a profit-making enterprise, it will finance 50 per cent of the UNDP inputs through cost-sharing. Some tyres are already exported to neighbouring countries and there is potential for expanding this market.

73. Handicrafts constitute an important part of the country's rural industry. UNDP helps the National Design Centre (SRL/84/040) improve the design of handicrafts and introduce new designs to increase sales to tourists and the local population. Further UNDP assistance is envisaged to develop new products for the local and export markets, to foster local production of tools and packaging materials and to carry out a feasibility study for establishing a handicraft village.

74. A new rural activity is sericulture, the potential for which has already been demonstrated in Sri Lanka. Experts financed by UNDP and the Norwegian Agency for International Development (NORAD) have been training Sri Lankan staff, introducing new varieties of silkworms appropriate for the prevailing climatic conditions and setting up pilot processing facilities. There is a growing local market for silk, along with an increasing potential for the export of silk fabrics. Further UNDP assistance is planned to provide technical advice and guide Sri Lankan staff in the expansion of sericulture.

75. In the Mahaweli areas, the need to create off-farm employment is particularly urgent, as land holdings are too small to be divided among the settlers' children. UNDP assistance is sought to initiate agro-processing schemes on a pilot basis in System H; the oldest Mahaweli settlement. It should be possible to replicate these schemes later in other areas.

76. Manufacturing often needs access to rapidly available short-term technical advice. The use of Short-Term Advisory Services (STAS), co-ordinated by UNDP, will be encouraged and, where needed, consultants' air fares will be met from UNDP funds.

77. Infrastructure. The Government's development strategy relies mainly on the transfer of resources from less to more productive uses. This implies both a freeing of resources for the private sector and efficient use of public sector resources. During the fourth cycle, UNDP co-operation will help increase the efficiency of public services, assist in the rehabilitation of physical infrastructure, make better services available to the private sector and expand the coverage and efficiency of various social services.

78. Providing effective support to the private sector will entail reforms in the administrative system and an improved capacity for national economic management. An Administrative Reforms Committee has been appointed to advise the Government on changes in the administrative structure required for increased efficiency and effectiveness, in particular on the establishment of provincial councils, which will have considerable powers over development activities. UNDP is helping prepare several studies on these subjects. The Government will approach UNDP and other donors for assistance in implementing some of the Committee recommendations, particularly in management development and training.

79. UNDP has been associated for more than two decades with developing Government planning capabilities, currently under Development Planning, Phase II (SRL/83/005). The Government seeks further UNDP assistance to strengthen the planning cells in the sectoral ministries, introduce new techniques of regional planning and enable the staff of the National Planning Division to keep abreast of appropriate macro-economic planning techniques.

80. The rapid growth in computer applications during the last few years, especially after the reduction of the import duty on computer equipment to 5 per cent, has led to a need for more trained personnel. The National Institute of Business Management (NIBM) and the Universities of Colombo, Moratuwa and Peradeniya have been selected as centres of excellence for computer technology, each to specialize in a different field. Some years ago UNDP helped set up a one-year computer course at the Institute; this is now being upgraded to a two-year programme to respond to the needs of business (SRL/83/023). UNDP will also help to set up a master's degree course in computer science at the University of Colombo.

81. A small provision is made for UNDP to strengthen the capacity of the Department of External Relations to co-ordinate the continuing massive inflow of foreign aid.

82. Government expenditures will be confined mainly to expanding and developing physical infrastructure to maintain it at a level suitable for the private sector to play its role in the economy. UNDP support in this field will include much training to adapt the operation of existing facilities to the changing mode of the economy.

83. A large investment has been and continues to be made in providing irrigation for the dry zone. These projects often involve major resettlement programmes and distribution of land to the landless. Although Sri Lanka has long experience with settlement schemes, the present scale and rate of implementation are unprecedented. With UNDP assistance, the Government has now launched programmes for the Mahaweli

area (SRL/84/025), as well as others (SRL/84/037) to improve settlement planning and ensure that services are provided in response to settlers' needs. These projects have just commenced and will continue during the new programme. Together with AsDB and Switzerland, UNDP will also help to train the staff of the Irrigation Department and Irrigation Management Division to enhance the productivity, efficiency and maintenance of field irrigation systems.

84. Well over \$US 1 billion has been invested in the infrastructure of the Mahaweli area. UNDP will continue to support these investments by helping improve the planning and monitoring mechanism (SRL/85/006) and by establishing an agricultural research farm in System B; (SRL/85/008), which will introduce agro-processing and make the scheme more responsive to the settlers' needs and capabilities.

85. The Government is also investigating new areas to be developed outside the Mahaweli Scheme. It has called on UNDP to prepare the feasibility studies for the Kaluqanqa Multipurpose project. This project, for which World Bank and bilateral donor financing will be sought, would help reduce flooding in the Ratnapura area, expand the area under irrigation and generate electricity. UNDP will also help upgrade the Institute of Surveying and Mapping to offer the country's first degree course in surveying, a natural development of the assistance provided by UNDP in 1967 which set up the Survey Department Training School.

86. Sri Lanka has gained recognition abroad for the Government's Million Houses Programme for low-income groups. The Government set up, with assistance from UNDP (SRL/84/036), the National Building Research Organization (NBRO), to carry out research on low-cost construction techniques involving roof systems, foundations and bricks and the preservation of cheaper types of wood. UNDP assistance in this field should continue, including assistance in landslide hazard mapping and research on low-cost early warning systems in areas prone to landslides. This will help meet the targets set for the Million Houses Programme.

87. The Government is improving sanitation in certain areas as the most cost-effective means of reducing the incidence of water-borne diseases. UNDP will help design and construct prototype low-cost sanitation systems suitable for low-income urban groups.

88. The Government wishes to exploit the country's location on several major shipping routes and develop Colombo port as a major transshipment centre. With Japanese aid, a modern container terminal has been built. UNDP is providing advice on its management and operation and helping set up a training centre in all aspects of port operations, thus increasing port efficiency (SRL/84/016). UNDP is also involved in training merchant marine officers to increase their numbers on ships under Sri Lankan and other flags.

89. UNDP has provided most of the technical co-operation required in civil aviation training. This will continue under the UNDP regional projects. A facility for training in navigational aids will be added to the civil aviation training centre at Ratmalana, set up with UNDP assistance (SRL/81/009).

90. Road improvement is another major priority in infrastructure development. However, as both World Bank and AsDB projects have technical assistance components, the Government sees no need for UNDP involvement in this sector at this stage, although future assistance should not be excluded. However, the Government seeks UNDP help for the driver training school of the Sri Lanka Transport Board and for improving the management of the bus services. Structural changes at the Central Board and the Regional Transport Boards provide new challenges to make the bus services more efficient.

91. The four training centres for the country's operational and supervisory telecommunication field staff, set up with UNDP assistance during the third cycle (SRL/83/015), are reasonably well established, but further support is required to upgrade the curriculum and train the instructors further. Although telecommunication services are scheduled for privatization, the Government wishes UNDP to help upgrade the centres further, at least until the new arrangements take effect. The project provides essential support to the \$160 million investment programme envisaged for telecommunications during the next five years. UNDP will also train post office staff in new developments in postal administration and management to ensure that the present satisfactory level of services is maintained.

92. The Government has taken various measures to improve the effectiveness of its social services. Formal education is being expanded to offer tertiary education to those already employed; research is to be better co-ordinated; and the coverage and efficiency of health and social welfare services are being enhanced, partly by increasing community participation and tapping local material and human resources more intensively.

93. The Open University provides tertiary education opportunities to those unable to enter the traditional university system and thereby diffuses some of the pressure for admission to the traditional universities. It has the unique feature of providing technical and scientific courses rather than the traditional arts subjects. This gives rise to new challenges in distance education. UNDP and the Swedish International Development Agency (SIDA) have helped to set up the Open University and its regional centres, which already cater to some 13,000 students. Further UNDP assistance is anticipated to develop media links and make more use of national radio and television.

94. In 1984 the Government, with a grant from the United Nations Financing System for Science and Technology for Development, set up the Institute of Fundamental Studies to play a catalytic role in science development through interaction with the university system, the research institutes, the productive sector and scientific policy makers. It will help co-ordinate scientific research, promote public understanding of science and initiate research in a limited number of fields. The Government will call on several donors and the UNDP to upgrade the Institute further. The Government also wishes to extend the post of the Science Adviser to the Presidential Secretariat, who also acts as the interim Director of the Institute.

95. UNDP has contributed to the improved effectiveness of primary health care services by participating along with USAID, the United Nations Children's Fund (UNICEF) and the World Health Organization (WHO) in upgrading the National Institute of Health Science in Kalutara, which is the central institution for training para-medical personnel (SRL/84/019). In view of the great shortage of doctors, assistance focused on training assistant medical practitioners who head the rural health centres, where they are assisted by a nurse-midwife and a public health inspector. Their training now includes community health and field work to make them work better as a team. The success of such training is illustrated by the fact that Sri Lanka should have a sufficient number of medical officers by 1988. Further UNDP assistance will introduce managerial training at the Institute and improve the training of nurse-midwives at the regional training centres. This should benefit women and children in the rural areas, where AsDB is helping to build new health centres.

96. Most diseases in Sri Lanka could be controlled through community health education and improved environmental sanitation. Diarrhoea and infectious water-borne diseases caused by poor sanitation and impure water supply remain major causes of both morbidity and mortality: 6,500 deaths annually and almost 10 per cent of hospital admissions. A number of donors are helping provide safe drinking water. The Government wishes UNDP to carry out a comprehensive study of rural water supply and sanitation programmes and prepare a sector plan as a basis for future investments and for co-ordinating donor inputs. This will contribute to the goals and targets set in the National Decade Plan within the context of the International Drinking Water Supply and Sanitation Decade (IDWSSD).

97. Food inspection received little attention until recently. Only some 2,000 samples are taken per year, well below the recommended three samples per 1,000 units. The results are alarming because 50 per cent of the samples appeared adulterated or contaminated. Because of UNDP support (SRL/84/015), new laboratories have been set up, staff are being trained and new food regulations have been introduced. The Government wishes to continue this project, which started in 1985.

98. Traditional medicine is important in primary health care in Sri Lanka because the 15,000 traditional practitioners, the ayurveda, are often the first point of contact for treatment among the rural population. UNDP is helping to strengthen the role of ayurveda in primary health care (SRL/84/020); this is expected to continue during the new programme.

99. Sri Lanka is also unfortunately falling victim to increased drug abuse: the country already has 24,000 heroin addicts, whose number grows by an average of 500 per month. The United Nations Fund for Drug Abuse Control (UNFDAC) and UNDP will assist the Government in prevention, treatment, and the establishment of a system for monitoring trends in drug abuse, including an early warning component.

100. Programmed reserve. A massive programme for the rehabilitation of the infrastructure in the north and east of Sri Lanka is likely to be necessary when the present efforts to solve the ethnic conflict are successfully concluded. As a first step, studies of the rehabilitation measures required will be needed. The

Government expects to call on UNDP for assistance in these studies and any other forms of technical co-operation needed for the rehabilitation work. A sum of \$4 million is set aside in the present country programme for this purpose.

101. Employment and incomes. Approximately 150,000 new jobs must be created annually to absorb youth entering the labour market. Although unemployment has fallen in the past few years, the rate still stands at 14 per cent, not taking into account persistent underemployment, especially in rural areas. Creation of jobs therefore remains a high Government priority, as does training young Sri Lankans in skills for productive employment. Experience shows that people trained through the various vocational skill programmes have usually been able to find jobs.

102. It is estimated that there will be jobs for some 120,000 skilled workers in construction related trades during the period 1986-1990 in the public and private sectors. Under the World Bank-financed Construction Industry Training Project 30,000 persons have been trained since 1981 and the capacity has been built up to train 6,000 persons per year. The present capacity cannot meet all the needs for training new recruits and conducting refresher courses and will be expanded under a new World Bank project for which UNDP will provide technical assistance. In addition to the training, the project will improve the efficiency of public construction enterprises and help revitalize the private sector.

103. The apprenticeship training programme fulfils an enormous need by meeting the requirements for skilled technicians in industry and providing new avenues of employment to school-leavers and drop-outs through skill upgrading and training in new skills. Students receive about one year of theoretical training and three years of on-the-job training in industry. To supervise and monitor the latter better the National Apprenticeship Board wishes to set up a Training Monitoring Unit for which UNDP assistance is sought. The project is a logical follow-up to earlier UNDP assistance in establishing one of the two major national apprentice training institutes at Katunayake (SRL/79/037). The project will maintain close contact with the other apprentice training institute at Katubedde, funded with assistance from the Federal Republic of Germany.

104. UNDP will help set up entrepreneurial development programmes to increase self-employment opportunities and the establishment of small manufacturing enterprises focusing on rural youth. UNDP will also train trainers under this scheme. The Government will seek bilateral assistance for the capital inputs where it cannot meet these needs from its own resources. This assistance will be closely co-ordinated with the USAID-supported Sri Lanka Business Development Centre, but the focus of the UNDP project will be slightly different, as it is concerned primarily with unemployed youth.

105. Voluntary movements for women directed towards the poor have existed for over 50 years in Sri Lanka. Government agencies have also assisted women in the urban slums and poor rural areas. The United Nations Development Fund for Women (UNIFEM) has supported five projects since the early 1980s with the objectives of income generation, community development and family health and education. The Government now wishes to stress programmes for the integration of women in development and, with UNDP support, to develop rural self-employment activities for women. These

may include fruit cultivation and processing, women's employment in the new Mahaweli settlement schemes and training of women as farmer leaders.

106. The Government realizes that a special effort is needed to improve access to vocational training facilities for the disabled. Some of the obstacles are that (a) the four residential vocational rehabilitation centres set up by the Ministry of Social Services are situated away from the mainstream of community life and therefore tend to isolate disabled students socially; (b) training is still too theoretical and does not prepare the student sufficiently for employment; and (c) there is insufficient follow-up or monitoring after training, resulting in relatively high unemployment. The Government wishes to have UNDP assistance to prepare a national policy on vocational training and employment of the disabled, to increase the effectiveness of existing facilities and to prepare a broader range of job-training and employment approaches, which will be integrated with schemes operated by non-governmental organizations (NGOs) and which are based on community participation and also use audio-visual methods.

107. Other projects. To preserve Sri Lanka's rich cultural heritage, UNDP will support conservation work in the Cultural Triangle by upgrading the archaeological laboratory of the Central Cultural Fund set up with earlier UNDP assistance (SRL/79/036) and training a team of experts in mural painting restoration. UNDP assistance is co-ordinated with the WFP food-for-work project and the programmes financed by the International Centre for the Preservation and Restoration of Cultural Property (ICCROM) and the Ford Foundation. Some assistance to the National Museum is also envisaged for conservation work.

108. Programmes initiated during the third country programme to promote technical co-operation among developing countries (TDCD) and allowing Sri Lanka to benefit from the transfer of knowledge through expatriate nationals (TOKTEN) will continue during the new programme with special emphasis on meeting technical co-operation needs identified in this programme. Small allocations are also made for the continuation of technical support under Short-Term Consultancies and Training (SRL/83/008) and of logistical support under Programme Logistical Support (SRL/84/002).

C. Unprogrammed reserve

109. In addition to the programmed reserve for infrastructure rehabilitation, approximately 10 per cent of total available resources has been retained as an unprogrammed reserve in the context of continuous programming. Its use will be decided during the annual reviews of the country programme which will also examine the continuing relevance of the activities now programmed in the light of possible future changes in the economic situation and in Government priorities. A pipeline of possible new projects for consideration at the annual reviews is being developed.

Annex

FINANCIAL SUMMARY

I. ACTUAL RESOURCES TAKEN INTO ACCOUNT FOR PROGRAMMING

<u>A. UNDP-administered sources</u>	<u>\$</u>	<u>\$</u>
Third cycle IPF balance	3 362 000	
Fourth cycle IPF	41 800 000	
Subtotal IPF		45 162 000
Special Measures Fund for the Least Developed Countries	-	
Special Programme Resources	-	
Government cost-sharing	2 300 000	
Third-party cost-sharing	-	
Operational funds under the authority of the Administrator	-	
UNDP special trust funds	-	
Subtotal, UNDP non-IPF funds		2 300 000
 <u>B. Other sources</u>		
Funds from other United Nations agencies or organizations firmly committed as a result of the country programme exercise	-	
Parallel financing from non-United Nations sources	-	
Subtotal, other sources		-
 TOTAL ACTUAL RESOURCES TAKEN INTO ACCOUNT FOR PROGRAMMING		 47 462 000

II. USE OF RESOURCES

Ongoing projects	15 027 000	
New project proposals	24 245 000	
Programmed reserve	4 000 000	
Subtotal, programmed resources		43 272 000
Unprogrammed reserve		4 190 000
 TOTAL USE OF RESOURCES		 47 462 000
