



**SRI LANKA**  
**Low Income Housing Program**

**Project Paper**  
**383-HG-001**

**Agency for International Development**  
**Washington, D.C. 20523**

**December 1980**

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE

A = Add  
 C = Change  
 D = Delete

Amendment Number

DOCUMENT CODE

3

2. COUNTRY/ENTITY

SRI LANKA

3. PROJECT NUMBER

323-HG-001

4. REFERENCE

ASIA

5. PROJECT TITLE (maximum 10 characters)

LOW INCOME HOUSING

6. PROJECT ASSISTANCE COMPLETION DATE (PACD)

MM DD YY  
 1 | 2 | 31 | 8 | 5

7. ESTIMATED DATE OF OBLIGATION  
 (Under "B:" below, enter 1, 2, 3, or 4)

A. Initial FY 81 | B. Quarter  | C. Final FY 84

8. COSTS (\$000 OR EQUIVALENT \$1 = )

A. FUNDING SOURCE	FIRST FY			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant) IPUP	( 150 )	( )	( 150 )	( 897.5 )	( )	( 897.5 )
(Loan)	( )	( )	( )	( )	( )	( )
Other U.S.						
1. UG Loan	25,000		25,000	100,000		100,000
2.						
Host Country		30,043	30,043	255,240		255,240
Other Donor(s)						
TOTALS	25,000	30,043	55,043	355,240		355,240

9. SCHEDULE OF AID FUNDING (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH CODE		D. OBLIGATIONS TO DATE FY 81		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1)	720	850		150	25,000	150	25,000	897.5	100,000
(2)									
(3)									
(4)									
TOTALS									

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

130

11. SECONDARY PURPOSE CODE

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code BU BR LAB  
 B. Amount

13. PROJECT PURPOSE (maximum 430 characters)

To assist the GSL develop shelter policies and structure programs and solutions which increase the effectiveness of limited government resources and provide maximum benefit to lower-income families.

14. SCHEDULED EVALUATIONS

Interim MM YY MM YY Final MM YY  
 1 | 2 | 3 | 2 | 1 | 2 | 8 | 3 | 1 | 2 | 3 | 5 |

15. SOURCE/ORIGIN OF GOODS AND SERVICES

000  041  Local  Other/Structural

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a \_\_\_\_\_ page(s) Amendment)

17. APPROVED BY

Signature

Title

Mission Director

Date Signed

MM DD YY  
 1 | 2 | 19 | 8 | 0

18. DATE OF MINOR REVISIONS IN ADDITION TO AMENDMENTS, DATE OF REVISION

TABLE OF CONTENTS

	Page
<b>PART I - SUMMARY AND RECOMMENDATIONS</b>	
A. Introduction . . . . .	1-3
B. Problems and Issues . . . . .	3-4
C. Summary Project Description . . . . .	4-7
1. Goal and Purpose. . . . .	4
2. Program Strategy. . . . .	4
3. Beneficiaries. . . . .	4-5
4. Location . . . . .	5
5. Program Outputs. . . . .	5
a. Physical . . . . .	5-6
b. Institutional . . . . .	6
6. Program Inputs . . . . .	6-7
D. Recommendations . . . . .	7
<b>PART II- DETAILED PROJECT DESCRIPTION</b>	
A. Project Relation to CSL and AID Strategy . . . . .	7-25
1. GSL Housing Strategy and Programs . . . . .	7-12
a. Background . . . . .	7-8
b. Public Investment Plan. . . . .	9-10
c. Programs. . . . .	10-12
2. AID Program Strategy. . . . .	12-16
a. General . . . . .	12
b. Primary Objectives. . . . .	13
(1) Aided Self-help and Slum and Shanty Upgrading. . .	13-14
(2) Cost Recovery. . . . .	14-15
c. Sub-strategies . . . . .	15-16
(1) MLGHC Policy and Coordinating Role . . . . .	15
(2) Technical . . . . .	16
(3) Community Organization . . . . .	16
3. CDSS Strategy . . . . .	16-17
B. Coordination with Other Donors . . . . .	18
C. Program Goal and Purpose . . . . .	18
D. Program Outputs . . . . .	18
1. Physical . . . . .	19
a. Shelter and Related Infrastructure . . . . .	19
b. Community Facilities . . . . .	19
2. Institutional. . . . .	19
a. Central Policy and Coordination. . . . .	20
b. Improved Design and Implementation Capacity. . . . .	20
c. Established Cost Recovery Mechanism . . . . .	20-21
3. Employment Generation . . . . .	21
E. Project Inputs . . . . .	21-24
1. HG Loan . . . . .	21
2. Technical Assistance . . . . .	22
a. Resident Advisors. . . . .	22
b. Short-term Advisors. . . . .	22
c. Training . . . . .	23-24
3. Host Country Contribution. . . . .	24
4. Summary AID Financial Plan . . . . .	24
F. Beneficiaries . . . . .	24,25

	Page
<b>PART III - INSTITUTIONAL ANALYSIS . . . . .</b>	<b>26-35</b>
A. Introduction . . . . .	26
B. Ministry of Local Government, Housing & Construction . .	26-27
1. General . . . . .	26-27
2. National Housing Department. . . . .	27-28
C. Authorities, Corporations and Boards . . . . .	28-33
1. National Housing Development Authority . . . . .	28-30
2. Urban Development Authority . . . . .	31-32
3. Common Amenities Board . . . . .	32
4. Other Corporations and Boards. . . . .	33
D. State Mortgage and Investment Bank . . . . .	33-34
E. Private Organizations . . . . .	34-35
1. Sarvodaya . . . . .	34
2. SEDEC - Socio-Economic Development Council . . . . .	35
<b>PART IV - SOCIAL ANALYSIS. . . . .</b>	<b>35-41</b>
A. Location of the Target Population. . . . .	35
B. Profiles of Target Areas . . . . .	35-37
1. Colombo Metropolitan Area . . . . .	35-36
2. District Capitals . . . . .	36-37
3. Rural Villages . . . . .	37
C. Profile of Target Population . . . . .	37-38
1. Urban Areas . . . . .	37
2. Village Areas. . . . .	38
D. Suitability of Projects. . . . .	38-40
1. Cultural Acceptability. . . . .	38-39
2. Technical Feasibility . . . . .	39
3. Affordability . . . . .	39-40
E. Women . . . . .	41
<b>PART V - TECHNICAL ANALYSIS . . . . .</b>	<b>41-48</b>
A. Existing Physical Conditions/Needs . . . . .	41-42
B. Proposed Program Activities . . . . .	42-48
1. Aided Self-help Program . . . . .	43-45
a. General . . . . .	43
b. Physical Description. . . . .	43-44
c. Cost . . . . .	44
d. Implementation. . . . .	44-45
2. Upgrading . . . . .	45-48
a. General . . . . .	45
b. Physical Improvements . . . . .	46
1) Public Infrastructure . . . . .	46
2) Community Facilities. . . . .	46
3) Community Services . . . . .	46
c. Cost . . . . .	46-47
d. Procedure for Project Execution . . . . .	47
C. Construction. . . . .	48
1. Building Materials Production. . . . .	48
2. Design and Site Layout. . . . .	48
D. Environmental Considerations. . . . .	48
<b>PART VI - ECONOMIC ANALYSIS . . . . .</b>	<b>48-51</b>
A. Implications for GSL Economic Policy . . . . .	50-51

	Page
<b>PART VII - FINANCIAL ANALYSIS . . . . .</b>	<b>51-52</b>
A. Program Costs . . . . .	51
B. Cost to Beneficiaries . . . . .	51-52

<b>PART VIII - PROJECT IMPLEMENTATION . . . . .</b>	<b>52-57</b>
A. Administrative Plan . . . . .	52
1. Coordination . . . . .	52
2. Program Planning, Design and Construction . . . . .	52
B. AID Program Management . . . . .	52-53
C. Program Monitoring and Evaluation . . . . .	53
D. Program Implementation Schedule . . . . .	54-56
E. Negotiation Status . . . . .	56
F. Authorization in Phases . . . . .	57

**ANNEXES**

1. PID Approval Cable and Response . . . . .	58-66
2. Action Memorandum and Authorization . . . . .	67-71
3. Statutory Checklist . . . . .	72-74
4. Logical Framework . . . . .	75
5. Public Investment Plan - Allocation of Government Capital Expenditure 1980-1984 . . . . .	76
6. Public Investment Plan - Housing, Water Supply and Urban Development . . . . .	77
7. Aided Self-help and Related Program Specifications . . . . .	78-85
8. Aided Self-help Program - New Starts and Projected Expenditures by District - 1981 . . . . .	86
9. Aided Self-help Program - Ongoing Schemes, Units and Projected Expenditures by District - 1981 . . . . .	87
10. MLGHC Organization Chart . . . . .	88
11. National Housing Fund Review . . . . .	89-98
12. Analysis of NHDA Regional Office Operations . . . . .	99-109
13. NHDA Organization Chart . . . . .	110
14. Slum and Shanty Division Organization Chart . . . . .	111
15. Projection of Activities for Slum and Shanty Upgrading . . . . .	112
16. Slum and Shanty Upgrading Standards . . . . .	113
17. Processing steps - Slum and Shanty Upgrading . . . . .	114
18. Proposed Budget 1981 . . . . .	115
19. Initial Environmental Examination . . . . .	116-134

- - -

AID	Agency for International Development
ASH	Aided Self-help
BMC	Building Materials Corporation
CAB	Common Amenities Board
CDSS	Country Development Strategy Statement
CMA	Colombo Metropolitan Area
CY	Calendar Year
DS/H	AID Office of Housing
FY	Fiscal Year (U.S.: Oct. 1 - Sept. 30)
GSL	Government of Sri Lanka
HG	Housing Guaranty
IIPUP	Integrated Improvement Program for the Urban Poor
MLGHC	Ministry of Local Government, Housing and Construction
MOF	Ministry of Finance
MV	Model Villages
NHDA	National Housing and Development Authority
NHD	National Housing Department
NHF	National Housing Fund
ODA	(U.K.) Overseas Development Administration
PIP	Public Investment Plan
PPD	Projects and Planning Division of MLGHC
RHUDO	Regional Housing and Urban Development Office for Asia
SEC	State Engineering Corporation
SEDEC	Social and Economic Development Center
SMIB	State Mortgage and Investment Bank
SSD	Slum and Shanty Division of UDA
SSU	Slum and Shanty Upgrading
UDA	Urban Development Authority
USAID	United States Agency for International Development
USAID/SL	USAID Mission in Sri Lanka

Currency Equivalentents (December 1980)

Currency Unit = Sri Lanka Rupees (Rs)  
U.S. \$ = Rs 18  
Rs 1 = U.S. \$ .056

Measurement

1 perch = 272.5 sq.ft.

## I. Summary and Recommendations

### I.A. Introduction

The proposed multi-year Sri Lanka Low Income Housing Program is the first involvement by AID in the shelter sector in Sri Lanka. With the exception of a few small pilot projects, no other bilateral or multilateral aid organization has provided significant assistance to the shelter sector in Sri Lanka to date.

Based on discussions between AID representatives and Government of Sri Lanka (GSL) officials, AID agreed in August of 1980 to undertake a Shelter Sector Assessment as a first step in the consideration of a Housing Guaranty Program. This assessment was carried out in September and October by consultants under the direction of the AID Office of Housing and its Regional Assistant Director in Bangkok, working closely with the USAID Mission in Colombo and GSL officials. It formed the basis for the subsequently-approved Project Identification Document (PID), program design work and this Project Paper.

The present Government of Sri Lanka was elected in 1977. Under the previous Government, the early and mid-1970's were characterized by, among other things, efforts towards greater distribution of income. Nevertheless, public sector production of housing during this period was extremely low, with only some 4,700 units being produced during the period 1971-77. The private sector did not pick up the slack, due primarily to rigid rent controls, restrictions on number of housing units that could be owned by individuals, and difficulties in assembling land packages or transferring titles. Finally, no long-term housing finance structure existed, or yet exists, in Sri Lanka.

Although detailed data concerning housing production and conditions have not been available on an updated basis since the early 1970's, it has been estimated that as of 1978 there was a backlog of some 1.3 million housing units needed to eliminate gross overcrowding and to replace sub-standard units which could not be upgraded. Of this, almost 300 thousand was attributed to urban areas, 168 thousand to the Colombo Metropolitan Region alone. This was in the context of a total population of 14.2 million at that time (now 14.5 million), 24 percent of which was urban.

The housing deficit, obviously impacting on the poor, was characterized by conditions similar to those in many of the developing countries, such as room occupancies averaging over five persons per room in some urban areas, lack of access to potable water and sewerage facilities, and deteriorating units constructed of temporary materials. In Colombo some slum and shanty areas have over 400 people per acre, and it is estimated that 50 percent of Colombo's population live in such slum and shanty housing. The situation was getting worse with production of new units not meeting the population increase, let alone addressing the backlog.

It was against this background that a new government came to power in 1977, favoring a mixed economy with encouragement of private enterprise. The current government made housing and urban development one of the three "lead" programs of its Public Investment Plan; the other two were the accelerated development of the Mahaweli hydro-irrigation-resettlement project and the development of a free trade zone.

The new government made a public commitment to develop and/or finance 100,000 new housing units in the following categories:

- ... 50,000 Aided Self-help Units. Designed for low-income families, this program provides building material loans to families for use in constructing their own shelter on a minimally serviced plot. Little technical assistance is provided other than standard house design. For the most part, this has been a program for rural areas.
- ... 36,000 Direct Construction Units. Primarily multi-storey walk-up flats in urban areas, this program is designed for low- and middle-income families.
- ... 14,000 Units to be built by individuals owning land who will mortgage it to government in exchange for a loan to build a house.

In addition, the government made some major organizational changes to implement its program, including combining several ministries and functions into a new Ministry of Local Government, Housing and Construction and creating two significant new independent authorities under the Ministry's direction: the Urban Development Authority, responsible for urban development and planning functions, and the National Housing Development Authority, responsible for the development of the government's housing programs. Finally, and of great importance for housing and urban development in Sri Lanka, was the fact that the Prime Minister also took on the portfolio of Minister of Local Government, Housing and Construction. Thus, not only did the government centralize the functions of housing, urban development, local government and construction in one ministry, a factor making it far different from many developing countries where coordination between different ministries is often difficult; but the Prime Minister brought to the Ministry a stature that ensures that housing programs will continue to have a high priority.

Subsequent to the start-up of the new housing program, the government added several new subprograms which bear on the total mix of housing and affect the proposed AID program. The first of these was the Model Village Program, or "Village Re-awakening," which envisioned new housing and community facilities in the country's rural villages as well as efforts to modernize the villages. Housing under this program was intended to be of the self-help variety. The second subprogram was the Electoral Housing Program which consisted of a specified number of new housing units in each electoral district to be built on a direct-construction basis. The third subprogram grew out of a recognition that the slums and shanty areas, representing the existing homes of many of Sri Lanka's poor, needed to be upgraded to a higher level of housing and related infrastructure rather than demolished or ignored.

The total number of units in the government's program was increased to 108,051 in the most recent Public Investment Plan period (1980-84), but this figure excludes units upgraded under the Slum and Shanty program.

### I.B. Problems and Issues

During the work on the Shelter Assessment, which included discussions between the AID Mission and its consultants and relevant GSL personnel, several problems emerged. Some of these had been identified earlier and were under active consideration by the government.

One of these problems is an issue that has been raised by the IMF and the World Bank. These institutions feel that the allocation under the GSL's capital budget to housing and urban development projects has been excessive, particularly because of the construction-intensive nature of these projects. However, in developing the 1980-84 Public Investment Plan (PIP), a conscious attempt was made to scale down or rephase two of the lead projects--those involving the most construction: the Mahaweli Development project; and Housing, Water Supply and Urban Development (HWSUD). The 1980-84 PIP, which calls for a total government capital expenditure of Rs 63.2 billion during 1980-84, states that the HWSUD category was reduced from an originally-proposed level of Rs 19 billion to the currently-approved Rs 11.6 billion. This amounts to 18 percent of the budget. Of the Rs 11.6 billion, Rs 6.4 billion, or ten percent of the total budget, is for housing.

The reduction in the originally-proposed amount for HWSUD was accomplished partly through a shift toward more Aided Self-help housing programs and away from the more expensive Direct Construction Program.

The 1981 budget is now before parliament. The amount expected to be approved for housing is Rs one billion, which is consistent with the 1980-84 PIP. It has been made clear to the GSL that any AID-financed housing program must be within the total levels approved by the government for housing and cannot be additive.

The two other major problems are more specific to housing but also bear on the issue discussed above. The first concerns the large proportion of the GSL's housing program which has gone to finance the direct construction of expensive multi-storey flats, which, if realistic rentals or prices were set, would be far above the capacity to pay of those families for which they are intended. Not only are such units expensive, but their construction places far greater demands on the construction sector than aided self-help.

The second problem concerns cost recovery, or the lack of it. In summary, almost all of the Aided Self-help program provides loans for building materials, including materials for wells, latrines and culverts, at no interest for 30 years; costs of infrastructure improvements in slum and shanty upgrading programs are currently not recovered; and monthly payments for government-owned flats are set far beneath economic costs. Added to this is the fact that the government's efforts to collect on both loans and rentals is greatly deficient.

The proposed HG Loan will directly address both of the above two problems but at the same time operate within the government's budgetary allocation for housing.

#### I.C. Summary Program Description

##### I. C. 1. Goal and Purpose

The program goal is to improve shelter and environmental conditions affecting the urban and rural poor.

The program purpose is to assist the GSL to develop shelter policies and structure programs and solutions which increase the effectiveness of limited government resources and provide maximum benefit to lower-income families.

##### I. C. 2. Program Strategy

There exists a significant degree of receptivity within the Ministry of Local Government, Housing and Construction (MLGHC) to working with AID and personnel in the Ministry dedicated to developing effective housing programs to reach the poor. Key ministry staff feel the HG Program will support the concepts they are advocating.

With housing almost entirely a local cost program in Sri Lanka, the Ministry of Finance and Planning is strongly in favor of the HG because it would help in providing long-term foreign exchange financing for the PIP and would, at the same time, provide the impetus for cost recovery under the housing program with long-term benefits to the government's capital budget.

The leverage which would be exercised through a major AID commitment is considerable, and the influence on more effective housing programs in Sri Lanka will be significant.

##### I. C. 3. Beneficiaries

The target group that this program will aim at are those families earning below the median urban and rural incomes of Rs 1,125 and Rs 690 per month, respectively. Over 100,000 people will benefit from new housing starts and upgraded units financed by the first year's HG authorization. As pointed out earlier, many of these people currently live in deplorable conditions--overcrowded and with minimal water and sanitation facilities. Moreover, many families face the lack of secure land tenure, long-term finance to pay for housing improvements, flexibility to produce their own housing (which meets their particular needs), and help in organizing to overcome such problems.

Although the rural-urban migration in Sri Lanka, at least insofar as Colombo City goes, has been at a lower rate than in many other developing countries; the housing problem, in terms of overcrowding and proliferation of shanties, has been growing. As noted above, the projected need for better housing is substantial, reflecting not only natural population growth but also some continuing increase in the movement to villages, secondary cities and Colombo. The Urban Development Authority, as part of its planning function, is now enumerating the low-income slum and shanty areas countrywide.

#### I. C. 4. Location

The proposed four-year program will finance subprojects in Colombo, district capitals and secondary cities (there are 24 district capitals) and in the more rural villages.

#### I. C. 5. Program Outputs

There are two principal categories of program outputs: those resulting directly in improvement of physical living conditions for the beneficiaries, and those resulting in the improvement of the institutional capacity to provide those physical improvements in an effective way.

##### I. C. 5. a. Physical Outputs

The Program will assist the GSL in its efforts to shift its total housing program increasingly toward aided self-help and slum and shanty upgrading. The shelter solutions over the four-year program, therefore, will include the following:

##### Aided Self-help

Building material loans on minimally serviced plots utilizing wells and pit latrines and located in the more rural areas. [Cost per unit in December 1980 is Rs 24,200 (\$1,344).]

Building material loans on serviced plots providing some combination of infrastructural elements, such as water, sewerage, roads and electricity.

Building material loans in conjunction with a core house and the infrastructure described above.

##### Upgrading

Building material loans and some level of infrastructure to existing slum and shanty areas. [Unit costs for upgrading are currently projected at Rs 10,000 (\$556).]

The first \$25 million HG authorization will finance almost all of the GSL's 1981 program for aided self-help, which includes 13,270 new starts and all of the slum and shanty upgrading program estimated at 3600 units.

In order to complement the shelter outputs described above, the government will provide financing for those community facilities deemed necessary for a minimum acceptable standard of living in the target areas. In subsequent years, the program is intended to introduce financing for serviced sites to be made available for small scale entrepreneurial activities owned by members of the community and situated as a part of the overall community.

#### I. C. 5. b. Institutional Outputs

The program seeks to strengthen and improve the GSL's capacity to develop its housing programs from the policy, planning and implementation standpoint on a self-sustaining basis by addressing three institutional factors.

The first of these is a strengthened central programming and planning unit in the Ministry of Local Government, Housing and Construction (MLGHC). Currently, there is no concise and comprehensive government housing policy which sets the framework for the development and implementation of government programs. It is intended that this project will assist in strengthening such a function in the MLGHC.

The second of the institutional outputs is an increased capacity for better site planning, better house design, greater assistance in self-help and more effective community development. The primary institutions involved in these processes will be the Urban Development Authority, currently responsible for the slum and shanty upgrading program, and the National Housing Development Authority, currently responsible for the development of the government's direct housing programs.

The third of the program's institutional outputs will be the improvement of the mechanism for establishing and servicing the government's loans and rentals for shelter and related infrastructure to begin to put its programs on a self-sustaining basis.

#### I. C. 6. Program Inputs

The primary input will be a \$100 million multi-year Housing Guaranty Loan with authorizations of \$25 million in each of four successive years, based on progress toward achievement of the goal and purpose set forth above. The HG Loan will be used to finance the shelter solutions, related infrastructure, and eventually the serviced plots for entrepreneurial activities. All will be done within the overall GSL housing program.

Grant funds utilizing the Integrated Improvement Program for the Urban Poor (IIPUP) will be used to finance two long-term advisors (one for three and one-half years and one for two years), plus one-half year of short-term assistance at a cost of approximately \$130,000 per person/year: a generalist assisting in the policy and programming work at the MLGHC level; an architect/planner experienced in low-cost housing and short-term assistance in community development work.

An additional \$125,000 from the existing USAID DS&T grant will be used for studies, and a final \$50,000 from the DS&T will be used for training of GSL officials associated with the program.

Since the HG loan will be a part of the overall GSL housing program for the next four years, financing approximately 28 percent of the housing component of the current Public Investment Plan, the GSL contribution, in effect, becomes the remainder of the financing. The GSL will also be furnishing the land and financing the community facilities for those components directly financed by the HG.

Summary of AID inputs:

HG Loan	\$100,000,000
IIPUP	800,000
Development Grant	175,000
	<hr/>
	\$100,975,000
	*****

I. D. Recommendations

Based on the program and its justification set forth in this paper, it is recommended that a Housing Guaranty and Development Assistance be approved as follows:

Housing Guaranty:

\$ 100 million over four years with \$25 million approved for authorization in FY 81 and \$25 million in subsequent years, based on program progress.

Integrated Improvement Program for the Urban Poor

\$ 800,000 over the life of the project with \$ 200,000 obligated in FY 81 for start-up. The IIPUP is centrally-funded grant project which has already been approved.

Development Grant

\$ 175,000 from existing USAID DS&T Project, already approved.

II. Detailed Project Description

II. A. Project Relation to GSL and AID Strategy

II. A. 1. GSL Housing Strategy and Programs

II. A. 1. a. Background and Policy

The present government came to power in 1977 and has completed about half of its six-year term. It has been characterized by a liberalization of government controls on the economy and a series of economic policy reforms.

The priorities of the GSL investment program have been determined by the perceived need to step up economic growth, increase employment, increase economic self-sufficiency and achieve long-term balance of payments viability.

Three programs were identified as the lead programs in the Public Investment Plan: the Accelerated Mahaweli Program (a combined hydro-irrigation-resettlement program), the creation of the Greater Colombo Economic Commission to develop investment promotion (free trade) zones, and the Housing and Urban Development Program. Part of the rationale for selecting these programs was the need for immediate benefits in terms of employment in the construction industry and the need to meet critical shortages in housing for middle- and lower-income households.

After six years of very little production of housing by the public sector, and private sector production falling far short of meeting the needs, the new government announced that it would produce 100,000 new housing units. The projected public sector goals were based on the assumption that the private sector would produce four times as many housing units. Thus, the government's policy is to accord a very high priority to public sector production of housing.

Nevertheless, there is no comprehensive national housing policy to achieve the government's goals and to carry out the policy. Instead, what exist are: (1) an ad hoc series of laws and regulations, some of them a carry-over from the previous administration, which actually work at cross-purposes to current efforts; (2) a reorganization of functions and creation of new authorities within the government's housing operations, which have created a multitude of organizations not yet completely rationalized and which have caused some duplication, some competition and some lack of direction; and (3) lack of clear-cut policies in such areas as subsidies, slum and shanty upgrading, and increased private sector participation.

The new government's main policy thrust in the sector since its election in 1977 has been to increase the public sector's commitment to produce housing, primarily by expanding the Aided Self-help, Direct Construction and Housing Loans Programs, but also by the addition of several new subprograms (Model Villages/ Electoral Housing), and through significant government allocations and the creation of several new authorities. The intention in establishing these new agencies was to give more independence to the agencies which plan and produce the public sector housing and foster urban development, i.e., the Urban Development Authority and the National Housing Development Authority. The government accepted the policy that the private sector should still build the bulk of the housing.

The government has not come to grips with subsidies in housing. There is, for example, no policy as to what level of subsidy is rational, or which income level should receive what subsidy. The large subsidies in the housing program do not show up in the recurrent budget and consequently are not readily apparent. Government housing programs are, for the most part, financed by direct allocation in the capital budget. To achieve its long-range housing targets, considering real budget constraints, the government must start to recover a greater share of costs than it is now doing.

The government is, in recognition of revenue shortfalls, shifting its programs away from more expensive direct construction to aided self-help. It is also considering expanding its efforts in slum and shanty upgrading. Perhaps most important from the policy standpoint, there is a growing awareness that cost recovery is crucial. These are, however, ad hoc decisions which appear to be made as the situation warrants and not as the result of overall policy considerations.

## II. A. 1. b. Public Investment Plan

The Public Investment Plan (PIP) for Sri Lanka covers a five-year period. The current plan covers the period 1980-84. It is designed as a "rolling plan," i.e., it is revised and moved forward each year. The purpose of the "rolling plan" concept is to introduce a greater flexibility into the process and to take account of the previous year's performance. The program is reviewed at the end of each year and the investment targets are revised to apply to the subsequent five-year period.

The current plan was based on sector papers prepared by the various ministries; in the case of the MLGHC, the sector paper covering Housing, Water Supply, Local Government and Construction was prepared in February 1978 and was the basis for the government's announcement of a 100,000 unit housing program.

As stated in the previous section, the government has designated three "lead" projects for the PIP: the accelerated development of the Mahaweli area, the development of the free trade zone, and housing and urban development. The latter is categorized in the plan document as Housing, Water Supply and Urban Development.

The government has come under some criticism from the World Bank, the IMF and other aid-disbursing agencies in the past year for the proportion of its capital investment going into the lead projects, particularly as these investments relate to construction-intensive projects. Nevertheless, the government stated in its PIP document for 1980-84 that the plan sought to achieve a reasonable degree of consistency in the allocation of resources between the lead projects and other projects. It further stated, however, that high priority was still attached to the lead projects and noted, for instance, the urgency of easing the acute housing shortage.

However, a conscious attempt was made to scale down or rephase two of the lead projects --those involving the most construction: Mahaweli Development and Housing, Water Supply and Urban Development (HWSUD). The 1980-84 plan document states that the HWSUD category was reduced from a proposed level of Rs 19 billion to Rs 11.6 billion during the 1980-84 period. This reduction was accomplished through a greater shift toward aided self-help housing programs and the reduction of the more expensive Urban Housing Program (Direct Construction). There was also a significant scaling down of investment in the plans for the new capital complex at Kotte which is located in the Greater Colombo area. Overall, the share of resources to the HWSUD category was reduced to 18 percent of the PIP total of Rs 63.6 billion in 1980-84. Of this total, housing amounts to ten percent, or Rs 6.4 billion. (See Annex 5 for the summary of government capital expenditure allocations for 1980-84.)

In addition to the PIP there is, of course, an annual budget both for capital and recurrent expenditures. The proposed budget for calendar 1981 is currently before the Parliament. Because of the rapidly rising costs of approved programs in the PIP and revenue shortfalls, the overall budget will apparently be cut by 20 percent across the board in the various ministries' programs. The MLGHC has indicated that the housing allocation will be Rs 1 billion (approximately \$56 million), plus Rs 45 million in Treasury loans to cover the Housing Loans program and Rs 443 million from internal generation of funds. (See Annex 18.)

Increasing costs and budget reductions make achievement of program goals doubtful without reductions in unit costs, i.e., further shifts to aided self-help. In fact, the 1980-84 PIP increased the number of housing units to be constructed by the public sector from the original 100,000 to 108,051, and it shifted the mix significantly from direct construction to aided self-help, as shown below:

	<u>1979-83 PLAN</u>	<u>1980-84 PLAN</u>
Aided Self-help	50,000	70,160
Direct Construction	36,000	23,891
Housing Loans	14,000	14,000
	<hr/>	<hr/>
	100,000	108,051

#### II. A. 1. c. Government Programs

The government's shelter programs are currently of four main types. A brief description is contained here, with more details in the Technical Analysis Section IV.

Aided Self-help (ASH) - This program provides loans to finance building materials, both for the basic house and for wells, pit latrines, culverts and drainage pipes. Where the latter are common to the community, the costs are pro-rated. All labor is provided by the allottee family with some technical assistance by the National Housing Development Authority which administers the program. Unit costs were estimated at Rs 24,200 (\$1,344) in December 1980.

The projects usually consist of 40-50 units but can run as high as 100. They consist of families who have formed a "building society" to implement the project. To date, most of the program has been used for families designated as low-income with monthly income falling between Rs 250 and Rs 550. Projects are located in or near rural villages or the suburban areas of larger towns. Land is made available through the NHDA on a 33-year renewable lease at a ground rent of Rs 12 per year. This income level is considerably below the median family income in urban areas (Rs 1125/\$62.50) and even below the rural median (Rs 690/\$38.33) but the loans are provided at no interest with 30 years to repay.

The "middle-income" program is for families with incomes up to Rs 1100 per month, and provides building materials for a slightly larger house and charges an interest rate of six percent. Only a small proportion (six percent) of the total ASH program has been for the middle-income category.

The Model Villages Program, which falls within the Aided Self-help category and utilizes the aided self-help concept, is also administered by the NHDA. It works on the same principle but is related to specific villages where certain other improvements are made, specifically community facilities, health centers, schools, and employment-generating programs. The housing units are planned within the existing village context. The program is designed as a "Village Re-awakening," i.e., to bring village life into a more modern setting while retaining traditional values.

Another subprogram which will utilize the aided self-help concept beginning in 1981 is the Electoral Program. In this program a specified number of houses is built in each of the 171 electoral districts each year. In 1981 thirty houses are scheduled to be built in each district. In addition to the materials loan, each allottee under this program is given a Rs 2000 loan to engage local contractors to assist in the house construction. Projects are designed to be completed within a one-year period.

The Fisherman's Housing Program also applies the aided self-help concept and is a joint program between the MLGHC and the Ministry of Fisheries. It seeks to upgrade the sub-standard housing that exists in most fishing villages by the construction of better housing through aided self-help techniques and material loans. Land and financing is provided through the NHDA's Aided Self-help Program. Like the Electoral Program, this program, until recently, was implemented through direct construction of the houses but will be switched to Aided Self-help in 1981.

#### Direct Construction

The Urban Housing (Direct Construction) Program consists of two-to four-storey apartment houses intended for low-income city dwellers. Rapidly rising costs and a realization that it would be impossible to meet the original goal of 36,000 units within the budgetary allocations have resulted in a cutback of the program to 23,000 units. The units being built generally range from 400-500 square feet with two or three bedrooms, living and cooking areas and individual bath/toilet facilities. Costs, originally planned for Rs 25,000 per unit, now range anywhere between Rs 100,000 and Rs 200,000 per unit (net of land). Clearly such units cannot be afforded by low-income people and are, as a result, heavily subsidized.

#### National Housing Fund

The House Loans Program was begun in 1954 to provide loans for home construction to middle-income and working class families who owned land. It has been administered since then by the Ministry's Housing Department through the National Housing Fund (NHF). Fourteen thousand homes were to be financed through this program under the present government's overall 100,000 unit public sector program. Also eligible for financing through the NHF loans are land and house purchases and repair/extensions of existing houses. The NHF loan program is currently suspended because funds were not allocated in 1980.

### Slum and Shanty Upgrading

The Slum and Shanty Upgrading Program is just getting under way and consists mostly of pilot projects, some of which are funded by voluntary agencies. It is essentially an infrastructure program which does not as yet include building materials to upgrade the houses, but does provide for transfer of land tenure. Some houses and core houses are being included in projects where the provision of infrastructure will require displacement. The voluntary agencies have added additional provisions to these projects, such as building material loans, community facilities and employment-generating components. In the government program there is no cost recovery at present, although the possibility of recapturing costs through municipal rates or selling water at the community taps is being considered.

## II. A. 2. AID Program Strategy

### II. A. 2. a. General

This project paper proposes a commitment of \$100 million of Housing Guaranty financing over the next four years to support the Government of Sri Lanka's 1980-84 housing program. It has been agreed with the GSL that HG financing would be within the government's overall allocation to housing in its capital budget and not additive. Authorizations of each successive HG will be dependent on performance in the preceding year and the degree to which program objectives are being met, including the establishment of improved cost recovery, programming and execution of more cost-effective shelter solutions, reduction of the expensive direct construction program, and undertaking the necessary studies and analyses to establish a comprehensive national housing policy.

There exists a significant degree of receptivity within the Ministry of Local Government, Housing and Construction to working with AID and personnel in the Ministry and the various authorities who are dedicated to developing effective housing programs to reach the poor. Key ministry staff feel the HG Program will support the concepts they are advocating.

With housing almost entirely a local cost program in Sri Lanka, the Ministry of Finance and Planning is strongly in favor of the HG because it would help in providing long-term foreign exchange financing for the Public Investment Plan and would, at the same time, provide the impetus for cost recovery under the housing program with long-term benefits to the government's capital budget.

The leverage which would be exercised through a major commitment is considerable, and the influence on more effective housing programs in Sri Lanka will be significant.

## II. A. 2. b. Primary Objectives

The immediate program strategy will focus on two primary objectives:

First, it will support the shift in the government's programs away from expensive, high standard, direct construction programs to an aided self-help approach, or some variation thereof, and slum and shanty upgrading. Second, the program will require Government to develop a phased approach to cost recovery.

### II. A. 2. b(1) Aided Self-help and Slum and Shanty Upgrading

With regard to aided self-help, there are several aspects to the strategy. Some politicians as well as some bureaucrats still support the construction of expensive, completed housing units. By stipulating that the HG can only be used for aided self-help, it will support and ensure the shift in the overall program to this category. Greater reliance on self-help will also take some of the pressure off the construction sector while enabling the government to keep its commitment to construct 100,000 units despite the likelihood of having to cut back to some degree on financing for the housing and urban sector of the PIP.

Another aspect of the strategy on aided self-help relates to its use in the urban areas as a substitute for direct construction. Aided Self-help has been widely regarded as a program only for rural areas, with multi-storey walk-up units considered the answer for the cities, particularly Colombo, as the result of higher land prices and the goal of achieving higher densities. Various studies in Sri Lanka have demonstrated, however, that similar densities can be achieved with good site planning for aided self-help projects, and several pilot programs have been instituted.

Although the government's 1981 program includes some projects in the Colombo area and other larger towns, most of the ASH projects are in smaller towns and villages. It is the intent of the HG program to support the use of the aided self-help concept in larger cities and towns in a significant way in future years as an alternative to the expensive multi-storey flats for low-income families.

The main reason that Aided Self-help has been a rural program up to now is that it has consisted of a materials loan with no real infrastructure, i.e. the family digs its own well and pit latrine, no electricity is provided, but access roads are put in. This approach won't work in densely populated urban areas where there must be basic infrastructure such as water, sewerage and street lighting, albeit to a minimum standard. Therefore, something more on the order of sites and services is necessary in the urban areas and perhaps, in some cases, a core house solution. To these would be added the building materials loan. The intent is to include pilot efforts in this regard in the second year program and adopt this more fully in subsequent years.

Slum and shanty upgrading is now an accepted concept in Sri Lanka, and funding is included in the Public Investment Plan. The program to date has been small, consisting of only a few pilot programs, mostly in Colombo and one in the District Capital of Jaffna. The government unit responsible for implementing the program is also small. The program currently includes only infrastructure, no building materials and no cost recovery. The HG program will expand on this concept by increasing the allocation to this element in succeeding years and working with the GSL to incorporate the provision of new or upgraded shelter as well as a cost-recovery plan in the program.

The above strategy is, therefore, to shift the government's program increasingly toward aided self-help as an alternative to direct construction and support the government's efforts to meet its quantitative objectives within the cost constraints which are becoming more severe.

## II. A. 2. b(2) Cost Recovery

The second major thrust of AID's strategy will be to assist the government in implementing its commitment to a phased program for increasing its cost recovery, both from the standpoint of charging for the capital and financing costs and from the standpoint of actually collecting the outstanding debt.

As pointed out earlier, the level of subsidies is very high, and the collection rate on the amount that should be recovered is very bad. There is a clear realization at the highest levels in the Ministry of Local Government, Housing and Construction and the Ministry of Finance and Planning that the government's cost recovery in housing is going to have to be substantially improved.

It is also clear that with the long-standing practice of housing subsidies and political pressures, it would be impossible for the MLGHC to move very quickly to anything approaching full cost recovery.

Improvement in the current cost recovery situation starts from a very low base, i.e., no interest charge in most cases, and no recovery of infrastructure costs. Gradual steps in the right direction will immediately accrue to the GSL's benefit. At the present time, however, the government has no clear policy regarding subsidy levels to different income groups, does not know the full extent of its subsidies or what families can afford or are willing to pay for housing.

The MLGHC has requested that AID assist them in undertaking a detailed study of the subsidy issue, including what the subsidy levels should be for different income groups, what people now actually pay for housing, what they would be willing to pay if they had secure tenure, etc. On the basis of such a study a policy will be established and an acceptable increase in payments will be adopted and applied on a yearly basis. The AID strategy will be to assist in structuring and financing such a study and to include in the Implementation Agreement a "mutually agreeable" clause regarding subsidies with each successive year being looked at in light of the previous one. In the 1981 program, pricing under the Aided Self-help Program will be structured to recover full capital costs and an effective two-percent rate of interest over the term of the loans.

In addition to setting a realistic level of repayments, the question of collecting those payments will be addressed. Servicing of National Housing Fund (NHF) loans has been handled to date by the Housing Department of the MLGHC. It has been characterized by high delinquencies and poor records. New NHF loans programs will be handled by the National Housing Development Authority commencing the first of 1981; but there are no indications this will result in significant improvement. The NHDA is currently servicing the loans made under its own ASH program which is just getting under way and which will expand rapidly. As things stand now, the NHDA has not fully geared up for this.

As the initial strategy for this year's HG, a specific account related to the HGP will be set up in NHDA. This would enable collection procedures to be clearly set forth, at least as they relate to HG-funded subprojects. The long-range strategy will be to establish this function in an agency outside the NHDA in order to separate the development of housing from the financial servicing of the associated debt. In this regard the GSL, with AID assistance, will study the feasibility of transferring this function to the existing State Mortgage and Investment Bank or one of the commercial banks (People's Bank) now administering a small housing portfolio or, eventually, to the new Housing Bank now receiving initial consideration in government.

#### II. A. 2. c. Sub-Strategies

##### II. A. 2. c(1) MLGHC Policy and Coordinating Role

Within the overall strategy of assisting the government to move increasingly to Aided Self-help (ASH) programs and instituting a phased approach to cost recovery, there are several sub-strategies to be addressed which will help achieve the major goals. The first is to strengthen the central ministry policy direction and coordinating role through direct technical assistance and short-term studies.

In this regard, the first priority for the GSL is to adopt a strong and comprehensive national shelter policy which will embrace all of the various policies, regulations and laws now in existence as well as deal with issues such as subsidies, use of aided self-help techniques in urban areas and a more definitive policy on slum and shanty upgrading. A part of the effort to develop a comprehensive national housing policy would include a study and analysis of housing finance in Sri Lanka.

The second priority is for the MLGHC to review the functions, staffing and procedures of the key organizations and agencies operating in the housing sector, including the Ministry itself-- in short, a series of management studies of these organizations but within the context of the overall sector. With the dynamic nature of government programs in the housing sector and the relatively recent creation of a number of the agencies and the problems identified earlier, such studies are definitely needed.

## II. A. 2. c(2) Technical

In addition to the larger issue of the government moving increasingly to aided self-help (both rural and urban) in its programs, there are a number of steps the government could take to implement the ASH program in a more cost-effective way. These factors should be addressed in the short term (i.e., over the life of the \$100 million program), but are also long-term in nature.

First, the use of indigenous materials needs to be emphasized. For example, use of lateritic bricks or better use of this type of soil in foundation work needs to be encouraged. And AID's strategy should be to do this within the context of the HG.

Second, house design and site planning could be significantly improved.

The strategy within the HGP context should be to suggest or support improvements in these fields.

Third, AID should explore with government ways in which the local manufacture of conventional building materials could be expanded. The director of the Building Materials Corporation believes that the potential exists for the establishment of small building materials manufacturing facilities located in a number of districts around the country.

## II. A. 2. c(3) Community Organization

The government has no formal programs to assist individual families within the community context in building their houses, maintaining them or the community facilities, or in assisting in the development of small-scale businesses. Yet some isolated programs are under way by private agencies, and such programs on a broad scale are necessary if these low-income communities are to become viable settlements and not just housing.

AID strategy in this regard is to help establish the capacity within the NHDA to develop the needed talent which will devote itself to these functions. Short-term advice will be provided under the technical assistance component of the program to assist in this effort as well as HG financing for serviced plots for small business.

## II. A. 3. Relationship of the HG Program to the CDSS and Host Country Priorities

USAID's program in Sri Lanka is based upon a strategy of assistance to the GSL to increase productivity and employment, increase self-sufficiency in meeting Sri Lanka's food requirements and sustain the GSL's progress in meeting the basic needs of its population.

The FY 1982 CDSS concentrated on rural needs and did not address problems associated with the urban poor. The strategy reflected USAID's analysis at the time of where the GSL's priorities joined with AID's legislative mandate and comparative advantage.

At the time the CDSS was prepared and submitted, USAID and the GSL had not begun discussion of the needs of the urban poor in general or housing specifically. However, the subsequent decision to consider non-appropriated HG funds as a new resource is consistent with the rolling plan concept of the GSL (which is reflected in the CDSS). The next annual revision of the CDSS will include this new program element. There is no doubt that meeting the basic human needs of the urban as well as the rural poor, including shelter and improvement of their living conditions, is a fundamental goal of the GSL. As mentioned above, the 1980-84 PIP identified housing and urban renewal as one of the three lead projects of the GSL and proposes investment in this sector totaling Rs 6.4 billion (\$356 million) over the plan period. The Prime Minister has also clearly identified assistance to the urban and rural poor through improved shelter as a fundamental and priority objective of the current government.

The forthcoming Sri Lanka CDSS macroeconomic update concludes that Sri Lanka will have great difficulty in securing both the domestic and external resources required to complete its current project portfolio as planned. As a result, fast-disbursing, non-project assistance is proposed rather than new project assistance (except for very special cases). More new projects will only further strain the shortage of local resources and skilled manpower and add to the recurrent cost problems of the GSL. Fast-disbursing, non-project assistance is also needed to support Sri Lanka's balance of payments. Finally, fast-disbursing, non-project assistance can also be employed to ease the government's budget deficit.

Assistance in the Sri Lanka housing sector would, consistent with AID's legislation, be directed to families below the median income and would address the basic human need for adequate shelter, including provision of the essential public services (water/waste disposal, sanitation) which households, particularly urban, are not able to provide for themselves.

The proposed HG focuses directly on the improvement of the living conditions of the poor, addresses a basic human need, and is a sector in which AID has the resources and experience with which to provide meaningful assistance. The HG program is therefore consistent with, and supportive of, USAID's current overall strategy and analysis as well as GSL priorities.

AID's Shelter Sector Assessment Team worked closely with the MLGHC during the study. The proposals put forth in the PID and this project paper were discussed with both the Secretary of Finance and Planning and the Secretary of Local Government, Housing and Construction. There is a clear understanding that any HG Program must be within the government's allocations for housing. Both ministries fully support the proposed program with its increased emphasis on lower-cost housing solutions for the poor as an endorsement of government efforts in this direction. Both ministries also fully recognize the need to structure a cost recovery program that will be effective over the long run. On the question of technical assistance, the Secretary, MLGHC, has indicated his ministry would welcome resident advisors who could provide useful services to the government.

## II. B. Coordination with Other AID Donors

There are no other major aid programs in the shelter sector in Sri Lanka. Because of the macro-concerns of the IMF and the World Bank regarding the allocation of capital expenditures by the GSL to housing, AID has briefed both institutions on the development of the HG and assured them that any authorization of funds would be within the GSL's overall allocation to housing and not be additive. World Bank officials have supported the emphasis on aided self-help, rather than direct construction, and the intent to move toward greater cost recovery.

There are, however, several smaller efforts in shelter and human settlements by other donors in Sri Lanka. The British Overseas Development Administration (ODA) has provided a \$1 million grant for building materials and has financed a three-person technical assistance team to assist in design and construction. AID's housing consultants drew on the experience of this team in conducting its assessment.

The Netherlands Government has also provided a small grant for several pilot projects in upgrading as well as assistance in construction management training. Also in upgrading, UNICEF has made a small grant for water and sewerage improvement in slum and shanty areas, along with health care and community development. CARE has an integrated community upgrading project, including shelter, infrastructure and employment generation. Experience gained under these projects has benefitted the detailed program design of the HG.

Finally, the UNDP is financing a major technical assistance effort in urban planning with the Urban Development Authority. Since the UDA is currently responsible for the slum and shanty upgrading program, close liaison will be maintained with the UNDP team.

## II. C. Program Goal and Purpose

The program goal is to improve shelter and environmental conditions affecting the urban and rural poor.

The program purpose is to assist the GSL to develop shelter policies, and structure programs and solutions which increase the effectiveness of limited government resources and provide maximum benefit to lower-income families.

## II. D. Program Outputs

There are two principal categories of program outputs: those resulting directly in improvement of physical living conditions for the beneficiaries, and those resulting in the improvement of the institutional capacity to provide those physical improvements in an effective way.

## II. D. 1. Physical Outputs

### II. D. 1. a. Shelter and Related Infrastructure

The bulk of the HG financing will go to produce shelter solutions in all areas of the country and in a variety of forms based on the aided self-help concept. Since the HG financing will go to support those aspects of the GSL's overall housing program, which AID has determined to be the most effective means to provide housing for lower-income people, it will not be related to specific "AID projects". The 1981 HG authorization of \$25 million will allocate \$23 million for Aided Self-help program and \$2 million for slum and shanty upgrading.

The HG allocation attributed to aided self-help will fund almost all of the total expenditures budgeted for this category in 1981 by the GSL. It will include both new starts and work in progress from 1980 programs. New starts in 1981 will include 3,256 units in regular Aided Self-help projects, 4,884 in Model Village ASH projects and 5,130 units in the Electoral Housing Program. (See Annex 8 for detailed listing.)

The HG allocation to slum and shanty upgrading in 1981 will finance improved infrastructure and a few core houses involved in displacement. Approximately 3600 units will be improved and upgraded in slum and shanty areas in the first year of the program.

In future years it is intended to include projects of core houses, sites and services, and add building material loans to both of these categories and to slum and shanty upgrading.

### II. D. 1. b. Community Facilities

The overall program for Aided Self-help includes community facilities centers in these projects. However, schools, multi-purpose centers, health clinics, market centers and other community facilities are currently the responsibility of other ministries. These facilities will be included in the subprojects, both for aided self-help and slum and shanty upgrading, and will be considered a government contribution.

## II. D. 2. Institutional Outputs

The HG program seeks to strengthen and improve the GSL's capacity to develop its housing programs from the policy, planning and implementation standpoints on a self-sustaining basis. The program seeks to strengthen this capacity through improved central programming and planning in the MLGHC, increased capacity for better site planning and housing design, greater assistance in self-help, more effective community development, and improvement of the mechanism for establishing and servicing the government's shelter loans and rentals.

#### II. D. 2. a. Central Planning and Coordination

There is currently no concise and comprehensive national housing policy. There are, instead, a number of new laws and regulations supplementing old ones, new agencies created within the past few years and a major housing program under way. Through the provision of an advisor assigned to the Ministry and grant funds to undertake a series of studies, it is intended to strengthen the Projects and Planning Division in the MLGHC. The objective is to help develop and reorganize the government's shelter policies so that they are internally consistent and support the achievement of the overall goals.

#### II. D. 2. b. Improved Design and Implementation Capacity

As pointed out in Section II. E. below, it is intended to assign an architect/planner as an advisor to the government to achieve the technical strategies outlined previously, and an organization expert to assist in the development and implementation of effective human resources development programs. The advisors would work with both of the major implementing units involved: the NHDA's Rural Housing Division (currently responsible for all ASH Programs) and the UDA's Slum and Shanty Upgrading Division. The intended output is improved site planning, particularly to achieve higher densities with ASH in more urban areas, better house design to lower costs and utilize local building materials, more effective ways to implement self-help programs, and institutional capacity to structure better community participation and management.

#### II. D. 2. d. Established Cost Recovery Mechanism

The institutional goal to be achieved relative to cost recovery takes two forms. The first is to set realistic payments for both rentals and loans, and the second is to collect these payments.

The first is a policy issue and relates to the very heavy subsidy provided now under all government housing programs. Although subsidies are applied with some differentiation (i.e., "low"-income families get interest-free loans under ASH; "middle"-income families pay six percent; beneficiaries of loans through the NHF pay from 6-9 percent; apartment renters pay rents with undetermined subsidies; and slum and shanty upgrading beneficiaries do not pay anything), there has really been no informed effort to set subsidies scaled to need. It is also recognized that subsidies cannot be eliminated entirely. A detailed study making recommendations to government to structure a phased program of increasing cost recovery will be undertaken with AID assistance.

Such a program is an output envisioned under the proposed HG program. Four years is too short a period to bring such a program to completion, but it should get well under way. As an initial step in this process, the GSL will recover the full capital costs and an effective two-percent interest rate over the mortgage term on ASH projects begun in 1981.

However, the collection of loans and rents which are due government is something which can be achieved in a shorter time. It is intended to structure a separate account within the NHDA's Financial Division and put the collection of new ASH loans funded under the HG Program on an up-to-date basis with records maintained to ensure adequate follow-up. The intent is also to apply such concepts to the existing NHF loans and rentals, even though they are not financed by the HG.

A longer-range goal within the four-year period is consideration of a financial institution to service the government's shelter loans. One such institution which is specifically geared to perform this function is the State Mortgage and Investment Bank. This will be the subject of a separate study.

Also falling into the category of a longer-range goal and part of the overall subsidy issue is cost recovery of infrastructure in slum and shanty upgrading through the collection of municipal rates and/or water charges.

#### II. D. 3. Employment Generation

An output which will be sought over the life of the program, but which will not be included in the first year's program, is a capacity to institute employment-generating programs within shelter projects. One of the voluntary agencies doing a pilot project in upgrading has such a program now. The overall Model Villages Program also includes some activities in this regard, again done by voluntary agencies; but it is not done under MLGHC auspices or in a coordinated program. It is intended to devote some short-term technical assistance to this need.

#### II. E. Project Inputs

##### II. E. 1. Housing Guaranty Loan

The primary input will be a \$100 million multi-year Housing Guaranty Loan with authorization of \$ 25 million in each of four successive years, based on progress toward achievement of the goal and purpose set forth above. The HG loan will be used to finance the shelter solutions, related infrastructure, community facilities and the serviced plots for entrepreneurial activities. It will be done within the overall GSL housing program. Although the HG will be used to finance essentially the same types of subprograms each year, it is intended to use the succeeding year's authorizations to induce increasing amounts of the program to go toward the lowest cost solutions; to introduce the Aided Self-help program into more urban areas; to firmly establish upgrading as a workable concept; to introduce different variations relating to self-help not now being used (such as core houses and sites and services); to get employment generation activities under way; and to establish a firmly-based cost recovery system.

## II. E. 2. Technical Assistance and Training

To carry out the program set forth in this paper, assistance of four types is needed: (1) resident contract advisors; (2) short-term consultants; (3) special studies; (4) training. It is planned to have one resident advisor for three and one-half years and one advisor for two years, plus short-term advisors.

### II. E. 2. a. Resident Advisors

(1) Housing Generalist to be assigned to work in the Ministry of Local Government, Housing and Construction. This advisor would assist in preparation of the comprehensive national housing policy; assist in work on management organization, functional and procedural clarification and help design the management studies; assist in drafting the terms of reference for a housing finance study; and assist in formulating the cost recovery program (three and one-half year assignment).

(2) Architect/Planner to be assigned to the NHDA. This advisor would assist in the design of lower-cost, standard house designs; in the formulation and implementation of more effective site planning; and in the formulation and implementation of improved aided self-help solutions, with emphasis on more extensive use of indigenous building materials (two-year assignment).

### II. E. 2. b. Short-term Advisors

These advisors would have functions which relate to the resident advisors but would include specific, highly-technical efforts. Most important would be to assist in structuring a government effort in community organization concerning human settlements at the low-income level. The function would also include assisting in consideration of government's including in low-income housing projects components relating to the generation of jobs. Other efforts would include, but not be limited to : (1) developing the mechanism of a revolving fund; (2) expert technical inputs in the formulation/operation of small enterprise development; (3) an in-depth study of the subsidy program of the GSL, with recommendations on subsidy reduction; (4) a comprehensive study of housing finance in Sri Lanka, with recommendations for the future needs to be undertaken as a first step in this sub-sector; (5) an updating of the 1976 Marga Institute study, "Housing in Sri Lanka," as the basis for work on a national housing policy and rolling plan formulation; and (6) assistance in establishing accounting and collection procedures for the NHF.

## II. E. 2. c. Training

The top staff of the Ministry, its departments and subsidiary authorities and corporations are generally very good. It is apparent that there is broad-based receptivity to working with AID and to exposure to new ideas. Sri Lanka has participated in the Office of Housing Shelter Workshop, and annual participation would represent a key component of the training element of AID's strategy. The second component would be a two-week mini-course/workshop on shelter development to reach 10-15 working level staff of the various shelter and shelter-related agencies. The third component is short courses in housing finance and related disciplines in the United States for selected Sri Lankans -- especially those currently working in the field of finance. Finally, three Sri Lankans who are committed to the field of shelter would be given training in the U.S. It is anticipated that would consist of 6-9 months of both formal academic work--at the graduate level--and an "internship" in the AID Office of Housing.

### Budget

	FY 1981	June - December
2 Resident Technical Advisors		
Generalist, 12 person/months		\$ 120,000
Architect/Planner, 3 person/months		30,000
		<hr/>
		\$ 150,000
	FY 1982	
2 Resident Technical Advisors (1 year each)		\$ 260,000
Short-term Advisor		40,000
Special Studies		50,000
Training		12,500
		<hr/>
		\$ 362,500
	FY 1983	
Resident Technical Advisor (1 1/2 person/years)		\$ 195,000
Short-term Advisors		40,000
Special Studies		25,000
Training		12,500
		<hr/>
		\$ 272,500
	FY 1984	
Resident Technical Advisors (1/2 person/year)		\$ 65,000
Special Studies		25,000
Training		12,500
		<hr/>
		\$ 102,500
Total life of project budget:		<hr/> <hr/> <hr/>
		\$ 897,500

It is anticipated that the Office of Housing will contribute \$800,000 of the TA budget, and USAID/Sri Lanka will contribute \$175,000.

### II. E. 3. Host Country Contribution

Since the HG loan will be a part of the overall GSL housing program for the next four years, financing approximately 28 percent of the housing component of the current Public Investment Plan, the GSL contribution, in effect, becomes the remainder of the financing. The GSL will be furnishing the land; project beneficiaries will be contributing their own labor; and the GSL will be financing the community facilities, such as multi-purpose community centers, health clinics, market centers, schools, and bus stops. In addition, the GSL will contribute approximately \$240,000 of in-kind support for the technical assistance, studies and training.

### II. E. 4. Summary AID Financial Plan

	Fiscal Years (\$000)			
	81	82	83	84
HG Loan	25,000.0	25,000.0	25,000.0	25,000.0
IIPUP Grant	150.0	300.0	235.0	65.0
USAID Grant/ TDS	37.5	62.5	37.5	37.5
	<u>25,187.5</u>	<u>25,362.5</u>	<u>25,272.5</u>	<u>25,102.5</u>

### II. F. Beneficiaries

The beneficiaries of the GSL housing programs receiving AID support through the Housing Guaranty Program will be those low-income families residing in urban and village communities throughout the island in which the GSL is working to improve the currently very poor housing conditions.

The beneficiaries themselves can be divided into direct and indirect beneficiaries, the former being the recipients of new or upgraded houses and the latter being those additional families residing in the homes of direct beneficiaries.

The "program," rather than "project," approach which characterizes the AID Housing Guaranty support to the GSL housing efforts results in substantial flexibility in planning the implementation of specific subprojects. Similarly, the multi-year nature of the program approach makes precise projections difficult. It is estimated, however, that the number of beneficiaries of the first year of AID support to the GSL housing program is approximately 100,000: 88,000 direct beneficiaries, as defined above, and 13,000 indirect beneficiaries. The table on the following page illustrates the method of calculating the number of Sri Lankans who are expected to benefit from the first year of AID-supported housing.

Additional data characterizing the project's beneficiaries are presented in Section IV of this project paper.

BENEFICIARIES OF AID-SUPPORTED HOUSING ACTIVITIESNEW STARTS, 1981

Type of Program	Number of Units	Members per family	Direct Beneficiaries	Families per household	Indirect Beneficiaries	Total Beneficiaries
Regular ASH	3,256	5.15	16,768	1.13	2,180	18,948
Model Villages	4,884	5.02	24,518	1.10	2,451	26,969
Electoral Housing	5,130	5.02	25,753	1.10	2,575	28,328
Slum & Shanty Upgrading	3,600	5.80	20,880	1.30	6,264	27,144
	<u>16,870</u>		<u>87,919</u>		<u>13,470</u>	<u>101,389</u>
	-----		-----		-----	-----

### III. Institutional Analysis

#### III. A. Introduction

Sri Lanka has a well-developed bureaucracy dealing with housing and construction-related activities. The major thrust of the government's planning and implementation of its housing program is through a single ministry--the Ministry of Local Government, Housing and Construction (MLGHC), created from the separate Ministries of Housing and Local Government in 1977. Except for the housing portion of development efforts related to the Mahaweli development and tea and rubber estate development, all major housing programs are developed and administered by departments and authorities coming under this Ministry. In addition, with the urban planning function of government and the administration of local authorities coming under this Ministry, most key decisions concerning housing programs can be made within a single ministry. Thus, the cumbersome problem of unwieldy coordinating committees of other ministries is avoided in most cases. This is clearly evident in the current pace of the Ministry's programs and the speed with which the government was able to work out the proposed Housing Guaranty.

MLGHC also occupies a position of unique importance because the Prime Minister serves as head of this Ministry and plays an active role in the formulation and administration of housing policy. The development of the proposed HG program and its implementation have centered, and will center, in this Ministry and its subsidiary organizations.

#### III. B. Ministry of Local Government, Housing and Construction

##### III. B. 1. General

In 1977, the MLGHC consisted of ten separate entities: eight devoted to housing, construction or development; and the remaining two concerned with local government. These organizations were involved in a wide variety of activities, from rent control to sacred area planning, to major construction projects.

As part of the new government's efforts in housing and urban development, the MLGHC was reorganized to focus more specifically on the problems associated with increasing the housing stock of the country. (See Annex 10 for organization chart.) Two new organizations were formed in which were consolidated the housing and development responsibilities that were previously spread among several existing departments. These new organizations--the National Housing Development Authority (NHDA) and the Urban Development Authority (UDA)--were established as independent government entities in order to provide more timely and effective operations, minimize red tape and provide access to non-governmental funding. Both of these organizations have the power to raise funds through the sale of debentures, to sell assets (such as land), and enter into joint ventures with private corporations. Ultimately, they are expected to become more or less self-sustaining by recapturing the cost of their investments.

To oversee and support its components, the MLGHC has a staff supervised by additional secretaries. Most of the housing activity is supervised by the Additional Secretary for Development, which has two divisions: Projects and Planning, and Programs. The Projects and Planning Division formulates initial policies, develops the strategies for achieving them, and establishes mid-term objectives to guide the responsible department or authority. The Program Division is charged with monitoring the actual implementation of the projects.

The AID Mission and its consultants worked most closely with the Projects and Planning Division in developing the proposed HG. The key person in this division, who attended the AID Office of Housing Workshop Seminar in 1979, is responsible with the division staff for conceptualizing, developing and coordinating the government's overall policies and programs in housing.

Each of the departments, authorities and corporations within the MLGHC has a charter assigning it specific responsibilities. However, the rapid growth in activity and programs during the past two years has resulted in some organizational inconsistencies. There has been a tendency for some competition among different organizations related to functions and programs, and other organizations are pursuing their own interests which may be inconsistent with new government directions, for example.

The Ministry has concentrated on producing new housing units as quickly as possible, which has often meant that superficial attention has been given to the more mundane administrative and planning functions. Some departments appear to be absorbing more administrative and financial resources than current activities justify, whereas others have been expanded beyond their capacity. So far, these organizational problems have been minimal; and because all of these functions are within the same ministry, adjustment and accommodation have been relatively painless. The current organization is, however, in reality only two years old, and at least another five years of rapid expansion is planned. During these next five years, some organizational realignment will be required to maintain the Ministry's current momentum and record of accomplishment.

What is needed is to pull all of these efforts together, so that policies and programs are consistent and some system of priorities is set up. This does not exist now. It is in this context that the one long-term advisor is proposed to work at the ministry level in the Projects and Planning Division, and to help formulate the additional studies on management and policy, which are needed.

### III. B. 2. National Housing Department

The National Housing Department (NHD) is an organizational unit in the MLGHC responsible for administration and rent collection for approximately 6,000 government-owned apartments, and administration and enforcement of government regulations concerning rent and house ownership. Many of its functions were transferred to the National Housing Development Authority (NHDA) when that organization was created in 1978.

One of its more important functions over the years has been the administration of the National Housing Fund (NHF), which it has done since its inception in 1954. Although the Aided Self-help and Direct Construction programs of the MLGHC are funded through direct allocations under the GSL's capital budget, the NHF, while receiving some grant money, receives most of its funds from the Ministry of Finance in the form of loans. (As of now, the terms are eight percent with 20 years to repay.) It is through this fund that the 14,000 units in the Home Loan category of the government's 100,000 unit program are to be financed. These loans are for (1) new home construction loans to borrowers who owned land and arranged for their own construction work, (2) land purchase, (3) house purchase, and (4) repairs and extensions. They go to middle-income borrowers.

In order that the NHF be put on a revolving-fund basis, it was intended that loans were to be made at nine percent, allowing for a slight spread. In fact, loans were made at six, seven and nine percent, depending on income levels, with the bulk going at six percent. Thus, it is apparent that the NHF could not be a "revolving" fund, even without the effects of inflation.

However, the administration of the NHF has been unsatisfactory in another major way: collections. Collections have failed in two ways. First, delinquent accounts have not been pursued with any regularity, and records have become so poor that many loan files are completely missing or are kept in such a way that it is impossible to ascertain balances or follow-up. (A more detailed report on the NHF operations is contained in Annex 11.)

As of January 1, 1981, the administration of all new loans made under the NHF will shift to the NHDA. As the administration of housing loans will be one of the crucial matters to be addressed by the HG program, this operation will be examined closely once the transfer takes place. Whether the NHDA is the correct vehicle to perform this function is discussed below.

### III. C. Authorities, Corporations and Boards

#### III. C. 1. National Housing Development Authority (NHDA)

The NHDA is one of the two agencies which will implement the physical components (the actual shelter solutions) of the proposed program. It is the agency primarily responsible for implementing the government's plan for public housing. Established as a statutory authority in 1979 under the MLGHC, its most important objectives are as follows: to engage directly in the construction of flats, houses and other living accommodations or buildings; to formulate schemes to establish housing development projects; to develop or redevelop land for the carrying out of any of the objectives of the Authority; and to provide financial or other assistance to persons engaged in any activity which is similar to any of the objectives of the Authority. To carry out this charter, NHDA has organized into four major divisions, each headed by a Deputy General Manager (detailed organization chart in Annex 13) :

- a. The Building and Development Division is responsible for the implementation of the Direct Construction Program.

- b. The Rural Housing Division is responsible for the construction of housing units under the Aided Self-help Program. In addition, now that the aided self-help approach has been expanded, the division is also overseeing the Model Villages, Electoral and Fisherman Housing programs. To manage effectively the extensive building being done through this division, implementation has been decentralized and many day-to-day operating decisions are handled by district managers in the 24 districts. Even though this division is titled Rural Housing, its responsibility includes development in urban or semi-urban areas for any program using aided self-help techniques. (Annex 12 contains a detailed explanation of the decentralized operations of this division.)
- c. The Finance Division is responsible for the development of financial and administrative policy for the individual programs of the NHDA. This division is concerned with disbursement and generation of funds as well as general financial management. This includes the servicing of all loans made under the Aided Self-help Program and, as of January 1, 1981, the servicing of new National Housing Fund loans.
- d. The Administration Division is in charge of the general administration of the NHDA and the management of large housing developments.

The total staff strength of the NHDA as of September 1980 was 2,290, made up of 86 senior managers, 190 mid-level employees and 2,024 supporting and clerical staff members.

The housing program administered by NHDA, as outlined previously, under the latest Public Investment Plan, calls for the construction of 108,000 housing units through 1984. To achieve its housing goals, NHDA receives funds from the government through MLGHC programs in the form of a direct allocation as part of the government's capital budget, or in the case of the National Housing Fund, as treasury loans. These funds are then supplemented by the Authority through long-term repayment by the recipients of housing, the cash sale of housing units, and the sale of land to builders.

Recently, under a new revenue-raising program, NHDA has advertised for proposals from builders to form joint ventures with NHDA for housing development. NHDA would contribute prime government-owned building sites as its share of the equity; the developer would provide financing and expertise. After completion, the project could be sold and the profits divided.

The NHDA is a dynamic organization which has achieved remarkable success in less than two years of existence. As of the end of October 1980, over seventeen thousand homes had been completed under a variety of programs, and over 28,000 units were under construction.

There appear to have been fewer false starts and administrative mishaps in the NHDA's programs than would usually be encountered in an undertaking of this magnitude. Perhaps the major criticism of NHDA's performance to date would concern cost control, house designs and site plannings. In the first year of the Authority, plans were drawn up, contractors hired and materials purchased with the objective of providing the maximum number of houses in the shortest possible time. This approach did not allow time for competitive bidding or consideration of alternative plans. Inevitably, per-unit costs rose drastically, especially under the Direct Construction Program where outside contractors were used. Today, NHDA is evaluating its programs with the objective of creating reasonably-priced housing units which will be affordable by the people for whom the housing is intended. This is concurrent with the government's shift increasingly to aided self-help. It is in this area that one of the resident advisors will be assigned.

Another longer-term problem which NHDA faces is a shortage of adequate professional and managerial staff to implement its programs. Administrative personnel at both the headquarters and newly-opening district offices are insufficient to meet the demands as the number of housing units and ongoing activities expand. Recruiting drives may not solve the problem because of the basic discrepancy between government and private enterprise salary levels. Instead, more carefully designed procedures than can be followed by less highly skilled administrators may be needed. Also, the use and distribution of key administrators may have to be reexamined in order to increase their efficiency.

In addition, as described above, the NHDA is slated to take over the administration of all new loans made under the National Housing Fund, commencing January 1, 1981. When this is added to the administration of the rapidly-expanding building materials loans made under the ASH program, for which there is no real experience factor yet (In one Model Village program visited by the consultants who did the SSA, the allottee family had not been required to make a payment, although they had been there six months), the question is raised as to whether servicing of housing loans should be removed from the agency doing the development and construction.

Although it is intended to establish a separate account for the HG funds within the NHDA operations, this aspect will be looked at closely, as part of the ongoing evaluation and monitoring of the program, to determine if the function should be moved to a financial institution. (See discussion of the State Mortgage and Investment Bank below.)

### III. C. 2. Urban Development Authority (UDA)

The UDA is the other agency which will implement the HG program because the slum and shanty upgrading program of the MLGHC is currently carried out by the UDA.

The UDA was established in October 1978, with a wide-ranging charter to carry out urban planning and develop projects for urban areas in Sri Lanka. The UDA is, to a large extent, made up of personnel from the former Colombo Master Plan Bureau. However, it has also taken over most of the functions of the Town and Country Planning Department of the Ministry.

UDA's responsibilities can be divided into the following fields of interest:

- a. Industrial development,
- b. Colombo Central Area redevelopment,
- c. The Parliamentary Complex at Kotte (the new Capital),
- d. The Free Trade Zone,
- e. Slum and shanty upgrading,
- f. Training programs in urban development, and
- g. Urban planning outside Colombo.

The UDA is committed to involvement in planning, construction and development activities in all urban areas, including not only Colombo but also each of the 24 district capitals. UDA's charter describes the Authority as a development agency engaged in activities that must be commercially and economically viable. It is also expected to meet its expenses from revenues generated from operations.

The 1980-84 corporate plan for the Urban Development Authority calls for development expenditure of Rs 2,646 million for the four-year period. On these projects, UDA hopes to earn a profit of Rs 245 million. UDA's budget for slum and shanty programs during this period is Rs 42 million, although this is being revised upward with the new emphasis being given to upgrading.

Until recently, the Slum and Shanty Upgrading Program, which is just getting off the ground and is composed of a series of pilot projects, was a "unit" within the UDA organization. The program represented only about one percent of UDA planned capital expenditures for 1980. This function appears to have been located in UDA (rather than, for instance, in the NHDA) because the original work on enumeration of slums and shanty areas had been carried out under the Colombo Master Plan activity which was taken over by UDA.

The Shelter Sector Team raised the question whether the organizational location of the slum and shanty unit within the UDA (it had no real power vis-à-vis other divisions) and the small amount budgeted indicated a real commitment to upgrading. However, during preparations of the project paper, it was announced that the unit was elevated to the status of a division equivalent to other major operating units in the UDA. This clearly appears to be a step in the right direction and a firm commitment by the GSL to upgrading.

The division has a staff of 23, composed of architects, draftsmen, evaluation officers, sociologists and planners working on projects in Colombo and three other areas. They have 16 projects currently under way or identified and others being explored in most of the major urban centers.

The division is essentially a planning and coordinating organization. Its major functions currently are:

- a. enumeration and socio-economic data collection,
- b. development of standards and norms for low cost living,
- c. clarification of laws and regulations concerning slum and shanty problems,
- d. development of repayment schemes, and
- e. identification and supervision of upgrading projects.

For identified projects, the Slum and Shanty Division prepares detailed drawings and plans. The actual execution of the project is carried out by the Common Amenities Board or, in some cases, local councils or volunteer organizations.

During the last two years, however, only one 58-site project has been completed, whereas during the same period NHDA has completed over 17,000 housing units. This is, of course, due to the pilot nature of the program, but is also related to the organizational issue described above. Many of the projects initiated by the Slum and Shanty Division proceeded smoothly through the identification and planning stage but faltered in execution. In effect, the implementation activities of the division did not appear to receive the attention deserved. Before the division can make progress toward meeting its goals, additional resources and administrative support must be provided. Elevation to division status is a start.

### III. C. 3. Common Amenities Board (CAB)

The CAB is responsible for carrying out a portion of the physical work on upgrading for the Slum and Shanty Upgrading Division of the UDA. In this regard, it provides the basic amenities (sewerage, standpipes, garbage collection, paths and lighting) in slum areas owned by the Colombo Municipality and private owners. The CAB has already undertaken four pilot upgrading projects for the UDA.

CAB also handles maintenance and repairs for 29 public housing developments with 6,000 units. The bulk of its activities is concentrated in Colombo, where its head office and a staff of 70 people are. But it also operates in some of the secondary cities and presumably will assist in implementing any upgrading programs outside of Colombo as well.

### III. C. 4. Other Corporations

The State Engineering Corporation (SEC) is a large government corporation which has both a building design and construction capacity and works almost exclusively on government projects. Today, 80 percent of the SEC contracts are for housing projects sponsored by the National Housing Development Authority. There are 55 housing sites under construction, ranging in size from a few units to as many as 2,000. Recently the SEC has begun a Rs 1.5 million slum upgrading project in Jaffna for the Urban Development Authority.

As the SEC enters the government's housing programs, it brings with it an administrative overhead and engineering techniques that do not appear compatible with low-cost housing. There is a building material research division within SEC, but it has had no impact on low-cost housing. If it is to contribute effectively, the SEC will need to consider establishing another division with a greater awareness of costs and engineering practices for low-cost housing. It is this kind of issue which needs to be addressed in the management studies being recommended.

The Building Materials Corporation (BMC) was established in 1972 as a state-operated corporation with monopoly powers to regulate the price and availability of building materials through a network of retail outlets located in various parts of the country. In 1977, the restrictions on competition among building materials were lifted. In spite of the increase in competition, the BMC has maintained its position as the largest building materials distributor and dramatically increased its profits during the last two years. It appears that BMC is an extremely efficient corporation and its effectiveness as a supplier has been instrumental in supporting the construction boom which Sri Lanka has been experiencing. There is also a Building Materials Development Corporation under the same head with a mandate to stimulate local production of building materials, particularly of traditional labor-intensive materials. This is also a matter which will receive attention under technical assistance efforts over the four-year period of the HG.

Finally, the National Water Supply and Drainage Board develops, operates and controls public water supplies and sewerage systems.

### III. D. State Mortgage and Investment Bank (SMIB)

The SMIB is a recent amalgamation of the Ceylon State Mortgage Bank and the Agricultural and Industrial Credit Corporation. Its assets are not large, being less than \$8 million. The bulk of its loan portfolio, about \$4.5 million, is in home loans.

One thing that will be looked at in the series of studies being proposed under the technical assistance component is the possibility of the establishment of a housing finance system in Sri Lanka. Currently the SMIB has access to three sources of funds: repayments on loans, a line of credit from the Bank of Ceylon, and sale of debentures. It does not take in savings. It makes shelter-related loans for new house construction, additions and land purchase to higher-income people. It is not currently a factor concerning the income

target group which will be served by the HG. However, although small, it does run an effective mortgage servicing operation. In this connection, it will be looked at as a possible administrator of government loans under the ASH program.

### III. E. Voluntary Organizations

#### III. E. 1. Sarvodaya

Sarvodaya is a private public-service organization which has been in existence in Sri Lanka for several decades. It is primarily Buddhist in orientation and emphasizes the importance of self-reliance and collective action at the local level as essential instruments of grassroots development. Composed primarily of volunteers coordinated by a central staff with a number of offices throughout the island, Sarvodaya's influence extends to thousands of rural villages in Sri Lanka. A widely-respected organization in the nation, Sarvodaya has successfully mobilized its members to participate in housing, road building, community facilities construction and operation, employment generation and other development programs.

Sarvodaya frequently collaborates in the development of housing programs utilizing a self-help approach in Sri Lanka. Under the Aided Self-help programs, as explained earlier, building materials are furnished to the participants--who are expected to supply the necessary skilled and unskilled labor. Community organization and motivation activities are not, at this time, components of the Ministry's program.

When the need for a community development element in a housing scheme is brought to the attention of Sarvodaya, that organization responds by assigning a number of volunteers to work with the participants in the housing program. Sarvodaya conducts community organization activities to help motivate the project participants and also supplies skilled labor components in the frequent instances where these are lacking.

The MLGHC promotes this relationship with Sarvodaya, as it recognizes that its own community development capability is limited. The relationship has not in the past been a formalized one, but has recently been made more official as a result of a three-year grant of Rs 16.2 million from the Friedrich Neumann Fund of West Germany. This will finance Sarvodaya's participation, consisting of community and skills training, and supplying certain tools for the work which will be undertaken by the villages in improving their communities.

### III. E. 2. SEDEC

The Social and Economic Development Centre (SEDEC) is a development organization working within the Roman Catholic Church in Sri Lanka. SEDEC has a central office in Colombo and an office in each of the five dioceses of the country. To date, SEDEC has participated in approximately eight housing programs sponsored by the MLGHC, emphasizing community organization, skills training, construction supervision and consciousness-raising. In addition, SEDEC has made donations of materials and equipment to employment generation facilities located in a number of the MLGHC projects. Numerically, SEDEC counts approximately eighty people on its staff.

## IV. SOCIAL ANALYSIS

### IV.A. Location of the Target Population

The proposed HG support to the housing program of the GSL will benefit a target group whose members are in the Colombo Metropolitan Area, the capitals of Sri Lanka's 24 districts, and a number of rural villages. The housing program of the GSL contemplates projects island-wide, and it is expected that the long-term strengthening effect of the HG program and its technical assistance components will ultimately benefit Sri Lankan families in the entire nation. The following paragraphs will characterize in a general manner the areas in which specific HG-supported projects will be undertaken.

### IV. B. Profiles of Target Areas

1. Colombo Metropolitan Area: The Colombo Metropolitan Area (CMA) is the primary focal point of the modern sector in Sri Lanka. It is the seat of the national government and the center of most industrial and commercial activity. In sheer size alone, it is the hub around which the remaining urban areas revolve; its urban population is larger by more than ten times that of any other distinct urban center.

While the CMA has not experienced the devastating rate of urban population growth that has characterized the primary cities of many developing countries, it has grown steadily over the past few decades and now contains nearly 60 percent of the island's urban population, with much of the growth having taken place among the lower-income groups that occupy the slums and shanties. Slum areas are defined as those areas containing housing occupied legally, whether by owners or tenants, consisting of line houses, individual units connected in rows, and large old houses which have been sub-divided into apartments. These areas are characterized by deteriorating buildings and lack of services. Shanty areas, on the other hand, are inhabited by illegal squatters (usually occupying swampy, poorly drained land), who have constructed shacks of impermanent materials and without access to services. These areas are currently estimated to contain nearly 50 percent of the population within the Colombo Municipal Council limits.

The level of delivery of such basic services as water, sewerage, and electricity is quite low in many parts of the CMA. In some of the shanty areas which will be considered for upgrading under the HG-financed activities, access to water taps is restricted to a single tap for 128 persons; a single bucket latrine serves some 75-80 persons.

Housing in the CMA is seriously overcrowded. Slum and shanty areas are composed predominantly of single-room structures, very often accommodating more than one family. Occupancy rates on the average exceed five persons per room, and houses with less than 250 square feet of floor area comprise over 40 percent of the stock.

There is widespread use of impermanent construction materials in much of the housing available to low-income families in the CMA, a situation (e.g., sleeping on straw mats directly on a dirt floor) which compounds the health problems owed to inadequate infrastructure.

High levels of unemployment are found in the CMA. Estimates of the extent of unemployment vary considerably, but there is agreement that there is a substantial body of unskilled and semi-skilled people currently seeking work.

2. District Capitals: In treating district capitals outside the Colombo District (the areas of Dehiwala, Mt. Lavinia and Negombo, which are part of the CMA, are included), it is customary to rank these in three general tiers according to their size and degree of urbanization. The first tier of capitals is generally given to include Jaffna, Kandy and Galle; these cities have populations ranging from 75,000 to 110,000 inhabitants.

The second tier of capitals comprises nine cities whose populations range from 17,000 to 40,000. The balance of the district capitals ranges in size from approximately 5,000 to 15,000 inhabitants and constitutes the third tier of cities.

History and geography join with size in influencing the settlement patterns of Sri Lanka's district capitals. The influence of housing conditions on the quality of life of the urban poor varies from place to place. The problem of slum areas is less severe in most district capitals; whereas shanties are appearing at a relatively high rate as the principal housing form of the cities' expanding populations.

Acute deficiencies of services characterize most of Sri Lanka's smaller cities, in contrast to the severe crowding which characterizes Colombo's dense slums and shanties. Fewer problems rooted in the "vesting" of properties in government agencies pursuant to the Ceiling on Properties Act are found in cities outside Colombo. (This Act gives title to all tenants occupying property with a rent of less than Rs 25 per month.)

The district capitals thus exhibit many of the characteristics of growing urban settlements: inadequate and seriously overtaxed urban services (there being no sewerage systems outside of Colombo); overcrowded housing; a shortage of finance for new housing construction and credit for upgrading of existing housing stock; and a high level of un- and under-employment.

3. Rural Villages: Conditions in the villages where housing activities are to be undertaken differ in a number of significant respects from those of urban areas. Although such indicators of housing quality as materials used in roofs or walls, index of permanence of dwelling, area of enclosed space, and percent of dwellings served by piped water and toilet facilities, are generally worse than in urban areas; important differences in density of settlement and local availability of construction materials make the impact of those conditions on the quality of life of the inhabitants of villages significantly different from that obtaining in urban areas. For example, most rural families have the option of digging individual wells or sharing in the use of community sources of water supply. Typically lower rural densities greatly simplify problems of latrine construction in a safe and culturally-accepted manner.

While rural areas are, as would be expected, more conservative in their orientation than urban areas, it is interesting to note that rural areas in Sri Lanka are considerably less static than those in many developing countries. They exhibit a high degree of rural-rural mobility of population, and, in general, a strong sense of participation in the overall economic and social life of the nation. This is no doubt due in large measure to the policies of the government, which tend to minimize the degree of rural-urban imbalance through policies affecting transport, food prices, delivery of medical and other basic services, etc.; as well as to an accurate perception on the part of rural dwellers that migration to urban poverty is not necessarily a good alternative to the current standard of rural life.

#### IV. C. Profile of Target Population (Urban/Village)

1. Urban areas: Family size has been found to average 5.15 members in urban areas. As a rule, families in those areas where HG-supported housing programs would have greatest impact are slightly larger, as indicated by studies carried out by the UDA. This factor, combined with the greater prevalence of housing units sheltering more than one family in low-income urban areas, points to the urgent need to improve the shelter options of Sri Lanka's urban poor.

2. Village areas: Family size in village areas has been found to be somewhat smaller than in urban areas: an average of 5.02 members. Incomes, as might be expected, are somewhat lower, with a median family income (calculated in collaboration with the Central Bank) of Rs 690 per month.

The range of principal employment activities in villages and rural areas of Sri Lanka is somewhat narrower than in urban areas, with most employed persons working in agriculture; fishing (in coastal villages); construction of roads; irrigation works; and other state projects; institutional employment, such as teaching and health delivery; and trade. While incomes are lower than in urban areas and tend to be more seasonal in response to changes in the harvesting cycles of rural areas, employment is somewhat more stable and the relationship of the rural dweller to his environment is more predictable.

As suggested previously, the minimum conditions of adequate shelter in rural areas of Sri Lanka differ from those in urban areas. A benign climate and an abundance in rural areas of materials which can be used to construct shelters facilitate the resolution of the most fundamental requirements of privacy and protection. While access to suitable sources of water and satisfactory systems of human waste disposal is more limited, the lesser densities of rural areas mitigate the severity of these shortcomings when they are contrasted to the comparable situations in urban areas.

Principal shortcomings in maximizing the effectiveness of autonomous efforts to secure suitable shelter in rural areas are those having to do with the optimum utilization of indigenous materials, the proper design of solutions (especially regarding placement and design of latrines or septic arrangements), and lack of access to credit for housing endeavors. It is anticipated that the village housing activities supported by the Housing Guaranty program will help to optimize the mix of beneficiary and capital inputs with appropriate technical assistance to result in low-cost improvements in village housing.

#### IV. D. Suitability of Projects

1. Cultural Acceptability: The housing projects to be supported by the HG program address a sharply-felt need which has been observed and quantified by GSL officials responsible for housing and urban development activities. Projections of housing need show that some 140,000 units per year would need to be built between 1980 and 2000 in order to meet the total needs of Sri Lanka. While such a level of production is not likely to be reached, in light of available resources of funds, materials and manpower, it is urgent that steps be taken to begin to address the deficit.

The people of Sri Lanka have a long history of self-reliance and autonomy and have had to address their own housing problems for many years. While they have succeeded, to the degree that most families have at least some form of shelter, growing numbers of Sri Lankans today live in very poor housing. Individual initiative has been important in the creation of much of the current housing stock available to Sri Lankans of limited means, but a lack of

access to certain elements, such as infrastructure services, sources of finance for housing and adequate construction materials, have impeded the construction of adequate housing units. This situation is particularly marked in urban areas, where greater densities of settlement and reduced availability of indigenous materials further complicate individual efforts to alleviate the housing deficit.

The types of shelter and community development programs proposed for AID support coincide well with the abilities and skills of the intended beneficiaries, relying as they do in large measure on self-help construction by the individual family benefitted. Such housing programs will be culturally acceptable to the participants and are expected to be very well received by the public.

2. Technical Feasibility: The technical considerations with which individual participants in the proposed program will need to deal should not present any unacceptable level of difficulty. More complex issues of design, site planning, and general infrastructure will be dealt with by professionals in the Sri Lankan organizations responsible for project development. The construction, completion or improvement of individual dwelling units will be a relatively simple matter, and suitable technical assistance will be included in project designs to ensure satisfactory completion of dwellings.

3. Affordability: Very limited information is currently available with respect to the cost of housing now provided, controlled or otherwise monitored by the formal sector. Furthermore, it is widely acknowledged that official data on housing prices and their relationship to incomes are an unreliable index of the true cost of shelter to families of limited means. Rents of housing units in government schemes have long been fixed at prices which today bear little resemblance to the economic rents of similar shelter--witness the long dormancy of the private sector in the housing field.

The existence of an informal housing market is acknowledged by sources having contact with low-income families and familiar with their housing needs and options. Recognizing the limitations of the data available, it is nevertheless possible to formulate some broad generalizations about the true cost of housing to families of limited means, and to make some assumptions concerning the affordability of the shelter solutions proposed for support under the AID Housing Guaranty program.

Most of the shelter available to lower-income urban families is located either in slum or shanty areas, the former being concentrated predominantly in the Colombo area. Slum dwellings are, by their nature, relatively inelastic with respect to their supply and thus play a minor role in that provision of new housing within the informal sector. Nonetheless, in light of the generally central location of most slums, such shelter is an attractive option. And there is known to be a lively market for housing opportunities which present themselves in existing slum areas. People are reported to pay substantial sums in advance for the privilege of living in a well-located slum area, and rents are reported to exceed by considerable amounts the officially-permitted maxima.

The supply of shanty dwellings, by contrast, is more elastic, as units can be expanded to accommodate additional people or new units built in the same or different sites(s). A vital market for the sub-leasing of both rooms in houses and additional structures owned by existing shanty dwellers is acknowledged by sources familiar with the economic realities of life in low-income settlements, and lessors of such dwelling spaces are reliably reported to pay substantial rents for their shelter--even in the face of marginal security of tenure and extremely low levels of services.

Thus, official data indicating that families in Sri Lanka dedicate between nine and 18 percent of their income to housing must be re-examined critically with respect to their applicability to true housing costs within the slum and shanty areas of Sri Lanka today. It is certain that outlays for housing exceed officially-reported levels, for the variety of reasons outlined above.

It should be observed that relatively large outlays for housing are not only the rule for many lower-income urban Sri Lankans living in slum and shanty areas, but the nature of housing obtained at such costs is of very low quality in absolute terms of size and amenities, and also quite unsatisfactory in terms of security--as tenure is by no means certain in the informal market. The recognition--and, optimally, legalization--of tenurial rights for slum and shanty dwellers, which is a component of proposed GSL housing programs identified for AID support, would do much to eliminate significant elements of insecurity from the housing picture of lower-income Sri Lankans.

Current pricing policies operating in the informal housing market, which operates in Sri Lanka's lower-income urban areas, are not governed by any mechanism which controls costs or responds to demand in the context of national policy. As demand greatly outstrips supply, costs rise accordingly, and the shortfall in housing available to lower-income families paves the way for an informal market response which offers minimal solutions at very high costs. Conventional wisdom about the need to subsidize lower-income groups is not part of the equation. Poor people pay, and pay dearly, for housing opportunities in urban areas of Sri Lanka. The solutions and programs proposed for AID support would be fully affordable in comparison with the existing market realities, even with serious cost recovery.

With respect to costs of village housing in Sri Lanka, it must again be observed that the body of accurate current data available is quite small. Such information as there is suggests that village expenditures for housing are relatively small, but the values of the contributions of rural families in constructing and maintaining their homes cannot be quantified. Materials utilized may have a relatively small capital weight in housing outlays but remain a significant element of housing expenditures, even when locally obtained.

Similarly, maintenance costs of village housing, constructed informally and thus more subject to rapid deterioration, must be adequately quantified in order for reasonable assessments to be made of the magnitude of such expenditures in real, or even relative, terms. Improvements in design, siting, or even in the selective substitution of certain elements responsible for premature obsolescence of village dwellings would serve to enhance greatly the value of the self-help inputs of village house-owners. Credit for the purchase of house components with a cash component would also facilitate the development of superior village housing in Sri Lanka. Such elements are proposed for inclusion in village housing programs which are to be supported by the AID Housing Guaranty program to Sri Lanka.

#### IV. E. Women

Women in Sri Lanka have rights equal to those of men and guaranteed by law. Accordingly, women can own property and can buy, sell, mortgage or otherwise encumber land. They have equal access to credit. Husbands are generally considered "heads of household" in Sri Lanka, and, thus, most legal transactions into which a family enters are recorded in the name of the male head of the group.

Female-headed households generally result from either the death of a husband or a legal action dissolving a marriage; unmarried women with children are relatively few in Sri Lanka. Strong cultural traditions serve to maintain the two-parent family group as the norm. While these circumstances, historically, have served to limit the utilization of credit and the ownership of property in their own name by women, increasing participation rates of women in the economic life of Sri Lanka, coupled with the phenomenon of postponements of marriage, which has been characteristic of recent years, has brought women more actively into financial life in Sri Lanka.

It is expected that the benefits of the program supported by the Housing Guaranty will accrue to men and women equally, as whole families will enjoy better housing and an improved standard of living. Improved sanitary conditions and better access to suitable water are expected to improve the health of all family members. Women and children will especially benefit from a reduced amount of time spent hauling water from distant sources, as it is upon them that responsibility for this activity principally falls.

Women are important participants in the cottage industries in Sri Lanka (e.g., coir-rope and mat production, paper bag making, sewing, lace-making, beedi-wrapping); and in this respect, too, improved homes provided through programs with which training and employment generation components are integrated will enable women to improve their economic status and that of their families.

#### V. TECHNICAL ANALYSIS

##### V. A. Existing Physical Conditions/Needs

Throughout Sri Lanka today, the housing available to lower-income families exhibits characteristics of grave inadequacy. This situation is manifested in very low levels of infrastructure services, high room and house occupancy rates, reduced living space, widespread use of temporary materials in house construction, poor physical planning and extremely limited access on the part of poor people to sources of credit and technical assistance for housing and shelter development efforts.

A few statistics will help to describe the magnitude of the physical shortcomings in Sri Lanka's housing stock in absolute terms:

- Over 40 percent of the housing units have a floor area of under 250 square feet--this implies a per-capita living area of less than 50 square feet, with many shelters in urban slum and shanty areas falling far short of even this extremely inadequate standard.

- Over 30 percent of the housing units have only one room (the proportion of single-room units available to low-income families being much higher), compounding the problems of overcrowding and lack of privacy faced by their occupants.
- In excess of 10 percent of the nation's housing units are occupied by more than one family, in spite of the acute limitations of space identified above. In urban areas this proportion exceeds 15 percent on the average, and reaches an estimated 30 percent in the more dense slum and shanty areas of Colombo.
- More than 65 percent of the housing units are constructed wholly or in part of provisional materials, leading to early decay of the housing stock and increased costs for maintenance. A large proportion of the housing units are considered substandard.
- Over 65 percent of Sri Lanka's housing units lack access to suitable sources of potable water; more than 75 percent do not enjoy the use of a functional and sanitary flush or water seal means of human waste disposal. Water and sanitary services are even more deficient in urban slum and shanty areas; in some of Colombo's shanties 130 persons share a single bucket latrine and wait their turn for water at the limited number of public standpipes.

The specific characteristics of Colombo, the district capitals and the village areas are presented in section IV of this project document. The natural growth of urban areas resulting from population increases is compounded by a modest but relentless rural-urban migration and, in some instances, also by a more rapid flow of families into areas which are experiencing abnormally high rates of growth in consequence of increased economic activities.

Access to suitable land for the development of low-cost housing in Sri Lanka may present some obstacles, but not for the inherently intractable reasons of topography and population density which characterize some developing nations. Sri Lanka has generous amounts of developable land, access to which is constrained in the private sector by complex tenure and inheritance systems. Government, however, is empowered to secure that land deemed necessary for development activities, thus ensuring its availability for social interest housing initiatives undertaken by the public sector. Similarly, government collaboration with private sector housing programs should preclude a situation of land scarcity.

#### V. B. Proposed Program Activities

The first \$25 million authorization will go almost entirely to finance the Aided Self-help Program for 1981 as planned by the NHDA, and the remainder will finance the 1981 projected program for slum and shanty upgrading. The total budget for ASH by location and category of project is contained in Annex 8.

## V. B. 1. Aided Self-help Program (ASH)

### V. B. 1. a. General

The Aided Self-help Program has four components, all of which operate on the same principle: minimal infrastructure and maximum self-help. These components are the regular ASH Program, the Model Village Program, Fishermen's Housing Program and the Electoral Housing Program. The only basic differences are as follow:

The Model Villages Program is part of a total village development program of the government, which includes such things as schools, community centers, health clinics, market centers and bus stops, funded by sources outside of the ASH Program. The regular ASH projects, even though individual subprojects may be located within or adjacent to villages, are not tied into a specific Model Village project.

The Electoral Housing Program, while moving to the aided self-help concept this year, will include a loan of Rs 2000 to a beneficiary to engage local contractors so that his house can be completed within the one-year schedule associated with this program.

ASH projects are located mostly in more developed rural areas and villages, small towns and semi-urban areas of larger towns and cities including Colombo. The closest Model Village project to Colombo is 16 miles from the city limits. On the average, the projects have 40-50 units with the largest regular ASH project being 100 units and the largest Model Village project being 325 units. Electoral Program projects will be 30 units in each electoral district in 1981. Fishermen's Housing projects are dictated by the size of the village.

### V. B. 1. b. Physical Description

The physical site plans for ASH projects (including Model Villages) take one or two forms. In one case, a discrete parcel of land is obtained within or adjacent to an existing village, town or semi-urban area. Within this parcel the housing units (and Model Village facilities) are constructed with roads connecting the parcel to the existing settlement. Using a grid or row house concept, the projects are now planned to fit in better with the existing houses, facilities and natural landscape. The other case is a project consisting of several possibly smaller parcels of land interspersed within an existing settlement or village, ensuring that ASH beneficiaries are well-integrated into the existing physical/social system. The latter approach is becoming more common in the village projects but is more difficult in projects located adjacent to larger towns.

Plot size and level of infrastructure will vary with location, soil conditions and land cost. In more rural areas, the plots may be as large as 20 perches (about 5500 sq.ft.) where pit latrines can be used. In smaller towns the plot size is more likely to be about seven perches (a little over 1900 sq.ft.) with an on-site septic tank and compost pit. For urban areas, with land costs higher, the plot size might be as small as four perches (almost 1100 sq.ft.), but such size plots would require access to piped water (e.g., a water tap for each ten plots) and connection to sanitary sewers or access to communal toilets. Where small sites are available in urban areas, such projects are considered "urban infill" projects.

A prototype house plan averaging between 300-400 sq.ft. is selected for each project from among several available from the NHDA based on climatic and site conditions and the beneficiaries' preferences. The units of a particular project must be identical but the designs are expandable up to about 500 sq.ft., and the beneficiaries can make modifications with their own resources after the project has been completed.

The building materials package for each beneficiary includes house building materials (including materials for a pit latrine), such as bricks, cement and roofing materials. It also includes a pro-rated amount for the common infrastructure facilities, such as small culverts, retaining walls, pipes for surface drainage and wells (there usually being one well per seven units). There are some differences in the common infrastructure as the projects get closer to urban areas. All labor for the project, both for individual houses and common facilities, is provided by the beneficiaries, although they can hire outside help if they choose to do so and can afford it. Help is sometimes received also from organizations such as Sarvodaya or, as mentioned in the case of the Electoral Housing Program, the beneficiaries are given an additional loan of Rs 2000 to hire labor. Electricity is sometimes included when funded by a local government grant or under the Model Villages Program.

#### V. B. 1. c. Cost

Current cost estimates (December 1980) for the building materials for a 40-50 unit project are Rs 24,200 per unit. This includes Rs 22,000 for the home and Rs 2,200 (usually estimated at ten percent of the home building materials) for the common infrastructure. NHDA technicians believe this cost can be covered with the use of more local materials (see below) as in an experimental project using such materials where the cost was Rs 18,000 per unit.

#### V. B. 1. d. Implementation

ASH loans are made to families which have formed a "building society" to implement an ASH project. The planning and implementation of the program is handled by the 24 regional NHDA offices. This process was decentralized in 1979, with the central office now handling such things as policy, overall planning, technical supervision, progress control, finance and budget, staff appointments and acquisition and training. (A detailed description of the NHDA Regional Office functions and the implementation process prepared by the AID consultants is contained in Annex 12.)

The NHDA Regional Office is headed by a deputy general manager who is responsible for overall project administration. Project officers (2 or 3 per office) serve as the deputy general manager's administrative assistants. There are two technical officers per regional office. They make weekly inspections of each ASH site, are responsible for supervising the site officers and advise the deputy general manager of project status. There is a site officer in charge of each site, sometimes with an assistant. The site officer ensures that design and construction work are according to specification, schedules the orders of building materials which are supplied by the Building Materials Corporation, and monitor construction progress. The site officers' responsibilities also include "motivation" meetings with the building society and individual beneficiaries to solve problems and provide the impetus to keep work on schedule. Finally, the site officers have three or four "watchers" on each site to receive, guard and distribute building materials.

Volunteer organizations, like Sarvodaya, are very important during this process. They provide supplemental assistance to the site officer for those beneficiaries having the greatest difficulty in providing the required labor inputs on schedule. In fact, one problem encountered thus far is the labor input. Beneficiaries often over-estimate the time they will have available to work on their houses; employment and other commitments usually cut into the time. There is also the question of competence to do the work despite the simplicity of design.

Organizationally, this appears to be an excellent implementation plan. However, the decentralization is only one year old and there is no long experience factor yet. Getting good staff is the key. There needs to be a constant evaluation and appraisal of the program, looking to identify and solve problems with good supervision. The community organization aspects will be crucial and it is in this respect that one of the proposed advisors will work.

#### V. B. 2. Upgrading

##### V. B. 2. a. General

The UDA Slum and Shanty Division has enumerated all slums and shanties in Colombo and is in the process of completing this exercise for the entire country. With more than 50 percent of the population of Colombo living in slum and shanty areas, the need for upgrading is obvious. Similar areas exist in most of the other urban centers, though not on such an extensive scale. A distinction should be made between settlements which are inherently temporary (due to land tenure or physical characteristics, such as flooding, which make them unsuitable as permanent communities) and those areas likely to be permanent residential communities.

A distinction also has to be made between slums and shanty areas which were defined earlier under the Social Analysis section: slums clearly represent more permanent areas, while some shanty areas may be located such that they do not represent a permanent solution. The level of investment should be greater in areas likely to remain as permanent communities; yet some level of upgrading is justified even in temporary areas if relocation seems unlikely in the near future. In temporary communities upgrading may be focused on socio-economic programs and on the extension of minimal public utilities essential to health.

### V. B. 2. b. Physical Improvements

The Slum and Shanty Division is in the process of implementing several pilot projects where experience is still being gained and adjustments are being made. One of the initial projects in a slum area of Colombo has already been deemed to have been too expensive. (Annex 16 contains a more detailed listing of standards being considered by the UDA for its upgrading projects. AID consultants have reviewed them and believe them to be reasonable.)

Improvements in more permanent communities might include:

#### (1) Public infrastructure

Water reticulation to common taps or to each plot; sewer reticulation or assistance with construction of improved communal or on-site sanitary facilities; grading and paving of roads and pathways; surface water drainage and street lighting.

#### (2) Community facilities

Social centers, health centers, schools, markets, or such other facilities as may be required to bring the services available in the community to a level similar to that found in the town as a whole.

#### (3) Community service

Waste collection, street cleaning and maintenance of public utilities, health care and special education. Not all communities will require the same services, but an integrated approach will be used to deliver services as well as physical improvements.

In addition, it is often necessary to include sites for core housing or some similar solution when people are displaced by upgrading. Currently there are no building material loans available in the program for upgrading such housing; but this will be looked at in the future.

### V. B. 2. c. Cost

An investment of Rs 10,000 per unit for the 1981 activities planned by the Slum and Shanty Division of the UDA reflects the average of expected costs of various types of improvements which will be undertaken, in light of the conditions to be improved in different slum and shanty areas.

Per unit costs will vary from project to project, but the following specific example of one project carried out the the Slum and Shanty Division will serve to illustrate typical cost components for upgrading activities:

Henemulla (350 units)	Rupees
(a) Survey	60,000.00
(b) Temporary relocation	75,000.00
(c) Construction (50 Core Houses x 20,000)	1,000,000.00
(d) Construction (Community Center and School)	240,000.00
(e) Site preparation (filling)	200,000.00
(f) Infrastructure & amenities	1,500,000.00
	3,075,000.00
	-----

Proportionate cost per unit = Rs 8786.00

#### V. B. 2. d. Procedure for Project Execution

Once the Slum and Shanty Division has decided to undertake an upgrading activity in a given site, the pre-implementation phase of the project is initiated. (The specific steps of that phase are set forth in the first part of the chart contained as Annex 17.) At the termination of the pre-implementation phase, a decision is reached on whether the project should be executed by the UDA or the CAB. The preferred option is to execute projects through the CAB, but the CAB is not always able to handle the projects due to its workload.

In certain projects, especially outside Colombo city, UDA can work through the respective local authorities which have a division for construction work. The local authorities follow the competitive bidding procedure. However, not all local authorities are staffed to carry out supervision of construction.

[The steps corresponding to each approach (i.e., CAB or UDA acting as the executing agency) are presented in the second part of the chart in Annex 17 with notes to clarify the identities of several of the groups that are potentially involved.]

The Slum and Shanty Division feels that there are shortcomings in both the approaches currently used. With respect to UDA-executed projects, there is too much delay in the phases in which the Engineering Service Division is involved. On the other hand, the CAB lacks capacity to implement programs of any magnitude, and there are problems of coordination between SSD and CAB.

The approach being considered to alleviate the problem is for the SSD to develop its own technical division, so that the contracting and supervision of work can be done directly by the SSD. However, it is recognized that there

needs to be better supervision of the work in all projects irrespective of the contracting procedure or the implementing agency. It is intended to advertise in the near future for a technical manager and for technical assistants.

#### V. C. Construction

##### V. C. 1. Building Materials Production

As an integral part of the program, efforts will be made to stimulate the development of small-scale production of building materials for local use. Employment generation will be one of the primary benefits of this proposed activity. Lower-cost building materials will be a second benefit, as local production will eliminate excessive transport and reduce the need to import materials to meet current demands. The program will also focus on developing the full potential for use of laterite block, soil cement or pressed earth block, sun dried brick and other traditional materials suitable for local production and utilization. The Building Materials Corporation and its sister institution, the Building Materials Development Corporation, would play an active role in this.

##### V. C. 2. Design and Site Layout

The AID consultant who dealt with technical issues during project design felt that there are improvements which can be made on site planning and house designs. There is an ODA-funded team working with the NHDA at present on these systems which has already made some recommendations. The proposed architect/ planner advisor would work closely with ODA advisor on this.

#### V. D. Environmental Considerations

An initial environmental examination was conducted for the Housing Guaranty program in Sri Lanka. The environmental analysis, performed in accordance with the AID Regulation 16, as amended in 1980, recommended a Negative Threshold Decision. This determination was based upon the fact that the proposed program will not have significant adverse impacts on the natural environment or infrastructure systems. (A copy of the IEE is attached to this paper as Annex 19; it was approved by the Environmental Officer of the Asia Bureau.)

### VI ECONOMIC ANALYSIS

In spite of increasing economic difficulties, the GSL is consistently maintaining its overall development objectives established in 1977 and the liberalized policy framework to support it. The major development objectives continue to be growth of income and employment to be attained through a liberalization of the economy and an ambitious public sector investment program. Increased incentives for the production sectors, particularly exporters, are to be emphasized. The liberalized economic policy framework

has been maintained and even increased in some cases during 1980. Subsidies continue to be reduced on a number of consumer items. Although subsidies still remain, the GSL's steady progress here is noteworthy. Gradual but steady progress on this sensitive matter is the appropriate approach, especially considering the possible adverse effects on the lower-income groups.

Interest rates have continued to be raised in order to attract greater savings. The following table shows the interest rate changes that have occurred in 1980, which have been substantial in most cases and now more closely reflect the real cost of capital.

Interest Rate Changes in 1980

<u>Savings</u>	<u>Previous Rate</u>	<u>Current Rate</u>
	%	%
1. Government Treasury Bills	9.0	13.0
2. Central Bank rate	10.0	12.0
3. Commercial banks		
Short-term fixed deposits	8.5	14.0
Long-term fixed deposits	15.0	22.0
Savings deposits	5.0 to 9.0	10.0 to 13.5
4. Savings Institutions		
Short-term fixed	12.0	15.0
Long-term fixed	18.0	20.0
<u>Lending</u>		
5. Commercial banks	10 - 22	21 - 30
6. Other lending agencies		
State Mortgage Bank	5 - 18	5 - 20
Development Finance	10.5 to 16.0	10.5 to 17.0
National Housing	6.0 to 9.0	9.0 to 13.0

Source: Central Bank of Ceylon

The major concern with regard to Sri Lanka's economic picture at this time is inflation. Government budget deficits tend to widen with inflation which could lead to a vicious circle of deficits contributing to inflation and inflation-increasing deficits. Inflation will tend to reduce the real levels of planned investments that can be achieved. It also may endanger the liberalized exchange rate and trade policy reforms, depending on how far the GSL is willing to let its currency depreciate. Finally, inflation could have serious distributional impacts, causing a further deterioration in the living standards of the low-income groups. As previously noted, the non-additive nature of the HG and its focus on low-income groups make it a highly appropriate prescriptive program for these sets of conditions.

## VI. A. Implications for GSL Economic Policy

The GSL has responded to the fiscal situation by announcing in November 1980 major cuts in 1981 planned capital expenditures and some minor revenue increases in order to reduce the deficit to manageable proportions. The 1981 budgets for most ministries were cut by 25 percent. These relatively severe budget cuts demonstrate both courage and commitment by the GSL to manage the situation forcefully. Additional subsidy removal would also serve to reduce the pressure on the government budget. Subsidies to items like fertilizer and food still represent significant strains on the government budget. Adjusting subsidies that affect the living standards of the low-income groups, however, must be undertaken with great care.

The trade and exchange rate policies that the GSL has adopted since 1977 have in many ways been favorable to an improved balance of payments situation. The devaluation and unification of the exchange rate system replaced an inefficient system of import controls and provided increased incentives to exporters, particularly industrial. The GSL policy of letting the exchange rate float has retained these favorable incentives. The reduction or elimination of subsidies on many imported consumer goods has discouraged excessive imports of these commodities and succeeded in achieving significant reductions in certain areas. The GSL has also embarked on a strong export-promotion strategy, establishing special incentives for exporters and a free trade zone program to attract processing and re-export activities. Despite these favorable policies, however, several other GSL policies have contributed to the recent deterioration in the balance of trade. Although the poor performance in plantation crop exports in 1980 was partly due to weather conditions, there is strong evidence that GSL policies have discriminated against these producers and have eroded the incentives to produce. Export taxation on coconuts, rubber and tea has been excessive and has eroded profit margins. With these crops representing between 55 percent and 65 percent of total export earnings, Sri Lanka cannot afford many years like 1980 when plantation crop exports decreased by 14 percent.

An important GSL economic policy issue that affects the balance of payments is the level of economic growth and investment that it decides to maintain. High levels of investment imply high levels of imports, and to the extent that these imports are not covered by the country's own foreign exchange resources or foreign aid, large financing gaps emerge, as occurred in 1980. The GSL must carefully plan its investment programs so that desired growth rates are balanced with maintenance of external financing gaps at sustainable levels.

The GSL has done an excellent job of attracting foreign donor support for its investment program. Over half of the current account deficit is accounted for by foreign flows. High levels of donor support can be expected to continue, barring unforeseen circumstances.

The GSL should also ensure that the managed floating exchange rate is allowed to adjust adequately to domestic versus world inflation rates. Although the GSL seems to have achieved this so far, if high inflation rates continue the maintenance of a realistic exchange rate may become endangered. In this regard, the GSL may resist a continual depreciation of the rupee at the 17 percent annual rate of the past year. The alternative, however, is a resumption of import restrictions and disincentives to exporters.

## VII. FINANCIAL ANALYSIS

### VII. A. Program Costs

The total cost of the GSL's housing program for 1980-84, including the HG-supported Aided Self-help and Slum and Shanty Upgrading components, is projected to be Rs 6.4 billion (\$355.6 million). HG financing will cover \$100,000,000 (Rs 1.8 billion) and the remainder will be financed by the GSL. The cost of resident and short-term technical assistance estimated at \$800,000 will be financed annually with IIPUP funds from the Office of Housing. Special studies and training activities estimated at \$175,000 over the four-year project period will be financed through the existing AID DS&T grant to the GSL. The GSL will, in addition, provide approximately \$240,000 in counterpart contributions to support the resident advisors, short-term consultants, studies and training.

The borrower under the HG program will be the GSL Ministry of Finance. Local currency will be made available as part of the normal GSL budgetary process to the MHLG by the MOF for program expenditures. Drawdowns of the HG loan from the U.S. lender(s) will be on the basis of an initial advance and subsequent draws based upon MHLG expenditures for agreed subprograms. Repayment of the HG loan will be a general obligation of the GSL. The MHLG will be responsible for collection of monthly repayments from beneficiaries. with such funds recycled into similar programs.

### VII. B. Cost to Beneficiaries

Currently beneficiaries under the Aided Self-help Program for the low-income category (Rs 250-550 per month) should be paying Rs 67.22 per month for the Rs 24,200 loan over thirty years at no interest. This ranges from 27 percent of income down to 12 percent. In the much smaller "middle income" program which has monthly incomes up to Rs 1,100 per month, the loans are somewhat larger for a larger house (say Rs 30,000) and repayment is at 6 percent over a 30-year period. This results in monthly payments of Rs 180, or 16 percent of incomes at the Rs 1,100 level. It should be noted here that the median family income in urban areas is at present estimated to be Rs 1,125 per month and in rural areas Rs 690. Thus, the programs reach far down the income scale, albeit at a heavily subsidized rate.

Under the proposed HG, terms for the 1981 ASH program are to be set at two percent. Using the same estimated unit costs of Rs 24,200 and a 30-year repayment period, monthly payments would amount to Rs 89. This would be only eight percent of the median urban income of Rs 1,125 per month and 13 percent of the median rural income. It would, however, amount to 36 percent for the lowest income beneficiaries which the ASH program now aims to reach. To reach this very low-income group, the GSL intends to apply some type of graduated payment mortgage to reduce the payments in early years.

## VIII. PROJECT IMPLEMENTATION

### VIII. A. Administrative Plan

#### VIII. A. 1. Coordination

The Ministry of Local Government, Housing and Construction (MLGHC) is the key ministry concerned with shelter and urban development. Almost all of the major functions concerned with the sector either come directly under the Ministry or are the responsibility of statutory authorities or corporations under the Ministry's direction.

The MLGHC through its Project and Planning Division (PPD) will supervise overall project coordination. The PPD will be responsible for project identification and planning. It will also be responsible for the monitoring and evaluation of the overall program and of the various project-level schemes.

The MLGHC/PPD will have the lead responsibility for actual implementation activities and development of the government's shelter program. The MLGHC/PPD will designate a member of its staff as the USAID Project Coordinator.

#### VIII. A. 2. Program Planning, Design and Construction

The individual subprogram and project planning, design and construction activities will be the responsibilities of two authorities within the MLGHC. The responsibility for the Slum and Shanty Upgrading program will be vested in the Urban Development Authority through their Slum and Shanty Division. The responsibilities for the Aided Self-help Program will be vested in the National Housing Development Authority.

### VIII. B. AID Program Management

USAID/Sri Lanka will be responsible for the policy framework within which the HG is implemented. The AID Office of Housing (DS/H) will be responsible for HG program development, negotiation and implementation within the mission policy framework. The Office of Housing's responsibilities will be carried out by the DS/H housing advisor assigned to USAID/Sri Lanka, under the overall technical guidance and supervision of the Regional Housing and Urban Development Office (RHUDO) for Asia.

The resident contract advisors will be financed by the Office of Housing from the centrally-funded Integrated Improvement Program for the Urban Poor (IIPUP). Project agreements for the IIPUP will be negotiated by the RHUDO and the mission housing advisor and cleared by USAID. Contracting for the resident advisors will be handled by RHUDO or the Office of Housing and cleared by USAID. Authority for AID reviews and approvals called for in the Guaranty Agreements have been delegated by the Office of Housing to RHUDO Asia.

Short-term consultants will be handled by the mission housing advisor in coordination with the Office of Housing and USAID.

Review of subprograms to be included in the proposed Housing Guaranty will be the responsibility of the mission housing advisor and will be conducted by short-term consultants from the Office of Housing as warranted. To keep these reviews within a program context, a schedule will be established for comprehensive reviews on an annual basis. Project reviews will be conducted as necessary on an ongoing basis by the long-term technical assistance team. Prior to the annual review, the Ministry will prepare briefs on its annual program and all subprograms and projects it plans to propose for inclusion in the guaranty financing and assemble preliminary plans which have been prepared to that point.

The review team will evaluate the subprograms for technical and financial soundness, based on agreed project design standards and criteria. It will submit a recommendation to AID on the "eligibility" of each subprogram according to the terms of the Implementation Agreement and make specific recommendations for subprogram or project approvals, specifying any particular problems that need to be reviewed in detail. Similarly, regular financial reviews will be scheduled.

#### VIII. C. Program Monitoring and Evaluation

Evaluation of progress in meeting the outputs for the overall program will take place through RHUDO-coordinated regular annual evaluations as prescribed in the DS/H Evaluation and Monitoring Guidelines. The operational responsibilities for the annual evaluation will rest with the mission housing advisor. These evaluation reports will note any deviations from the program and sub-program purposes, goals and schedules and will present a detailed factual basis for such revisions of the program as may be necessary.

The reporting process will include periodic progress statements made by MLGHC to AID. Additionally, the technical assistance team will submit quarterly progress reports. These reports will include quantitative measures of the physical progress of subprogram and project components.

Implementation of the MLGHC program and management of the Housing Guaranty input will be an ongoing process through at least 1985. It is expected that as the program evolves and experiences are evaluated the specific subprogram and project design standards, criteria and procedures will be adjusted.

#### VIII.D. Program Implementation Schedule

##### First and Second Quarter CY 1981

1. MLGHC completes detailed subprogram and project planning for 1981.
2. Mission housing advisor arrives Sri Lanka.
3. Mission housing advisor, RHUDO and GC/H draft implementation agreement.
4. Mission housing advisor and RHUDO prepare draft project agreement for IIPUP and mission-funded technical assistance, draft scopes of work for resident TA and housing subsidy study.
5. AID and MLGHC select resident advisors.
6. MLGHC initiates housing subsidy study with consultant assistance.
7. Upon arrival of project paper, DS/H issues letter of advice for first phase authorization, \$25 million.
8. MLGHC/AID complete technical and financial reviews of 1981 subprograms.
9. MLGHC advertises and begins selection of HG lender(s).
10. Mission housing advisor, RHUDO and MLGHC negotiate implementation agreement.
11. MLGHC obtains necessary approvals for host country guaranty.

##### Third Quarter CY 1981

1. MLGHC begins work on development of 1982 subprograms.
2. MLGHC, AID and US lender negotiate and sign housing guaranty agreements.
3. MLGHC and US lender(s) complete first HG disbursement.
4. Initiate national housing policy study.
5. Draft report on Housing Subsidy Study.

Fourth Quarter CY 1981

1. MLGHC develops detailed program for CY 1981.
2. DS/H fields consultant team to review CY 1982 program and evaluate policies and program developments.
3. Mission housing advisor/RHUDO (and USAID) prepare summary evaluation report.
4. GSL submits plan for reducing subsidy and incurring cost recovery.
5. Mission housing advisor/ RHUDO prepare progress report for second phase authorization of \$25 million.
6. Initiate National Housing Policy Study.

First Quarter CY 1982 - 1985 (each year)

1. MLGHC completes preliminary project planning for the year.
2. DS/H fields consultant team for technical and financial reviews of proposed subprograms for the year--specifying any follow-up reviews that may be necessary.

Fourth Quarter CY 1982 - 1985 (each year)

1. MLGHC develops detailed program for following year.
2. DS/H fields consultant team to review program and evaluate MLGHC policies and program developments.
3. Mission housing advisor/ RHUDO prepare summary evaluation report.
4. Mission housing advisor/ RHUDO prepare subsequent year authorization.

First Quarter CY 1982

1. Authorization of second phase housing guaranty of \$25 million.

Second Quarter CY 1982

1. Selection of lender and negotiation of second HG loan.

First Quarter CY 1983

1. Authorize third phase housing guaranty of \$25 million.
2. Draft National Housing Policy report.

Second Quarter CY 1983

1. Selection of US lender and negotiation of third HG loan.
2. Final Housing Policy Study.

First Quarter CY 1984

1. Authorize fourth phase housing guaranty of \$25 million.

Second Quarter CY 1984

1. Selection of US lender and negotiation of fourth HG loan.

Fourth Quarter CY 1985

1. Final disbursement completed of HG loans.
2. Mission housing advisor/RHUDO and USAID prepare and submit final evaluation report.

VIII. E. Negotiation Status

Pursuant to approval of this multi-year proposal, AID will authorize a \$25 million HG loan and send a letter of Advice to the Borrower. When the Borrower is ready, AID will place a notice in the Federal Register inviting interested U.S. lenders to submit proposals to the Borrower.

The legal agreements are:

1. The Implementation Agreement between AID and the MLGHC;
2. The Loan Agreement between the U.S. lender and the Borrower;
3. The Guaranty Agreement between AID and the U.S. lender; and
4. The Guaranty Agreement of the Government of Sri Lanka between AID and the GSL.

Conditions Precedent to AID Agreement to the first disbursement will include:

1. Necessary legal opinions and the host country guaranty.
2. Submission of the GSL plans and schedules for undertaking the housing subsidy study and the national housing policy study.
3. ASH and slum and shanty project design criteria and standards including procedure to confirm beneficiaries are within the target groups.
4. Procedures for selection of ASH project beneficiaries.
5. Submission of GSL plans for implementation of cost recovery under 1981 ASH program.
6. Submission of detailed 1981 ASH and slum and shanty program.

### VIII. F. Authorization in Phases

This \$100 million program will be authorized in phases, the \$25 million to be authorized following the approval of this paper. The Implementation Agreement will specify that subsequent authorizations will be subject to the availability of funds and AID's satisfaction that phases already authorized are being implemented in accordance with agreements for each preceding authorization.

The Government of Sri Lanka has already agreed to full recovery of the capital cost of housing financed with the equivalent of 2 percent interest over the life of the mortgage as an initial step in the process towards the recovery of full costs with a reasonable rate of interest.

During the first year of the program, the government, with AID assistance, will undertake a study of housing subsidy policy and initiate a study of National Housing Policy. The housing subsidy study will be completed during the first year of the program and the housing policy study will be completed during the second year of the program.

Prior to recommending each subsequent authorization, AID will review program implementation and evaluate the programs and policies of the Government of Sri Lanka with regard to:

- o cost recovery policies and procedures,
- o improved physical design,
- o implementation of housing subsidy and policy recommendations, and
- o management of aided self-help and shanty upgrading programs.

The recommendation to authorize each subsequent phase will be accompanied by a report summarizing this review.

UNCLASSIFIED  
Department of State

Annex 1  
OUTGOING TELEGRAM 58.

PAGE 01 STATE 305740  
ORIGIN AIG-35

02066J A104102

STATE 305740

30566 10011

ORIGIN OFFICE ASPO-03  
INFO AAAS-01 ACSN-01 ASPH-01 ASDP-02 CPG-01 PPCE-01 POPR-01  
PPPB-03 GC-01 PPEA-01 GCAS-01 GCFL-01 HQ-01 ASTR-01  
CHS-01 HUD-02 /027 A4 7

INFO OCT-30 /0JS R

DRAFTED BY AID/ASIA/PO/SA:VBAUM:VU  
APPROVED BY AID/AA/ASIA:RHALLIGAN  
AID/ASIA/PO:RVANRAJALTE  
AID/ASIA/PNS:JHILLER (DRAFT)  
AID/GC/ASIA:MMORRIS (DRAFT)  
AID/PPB/PB:LLECUC (DRAFT)  
AID/OS/PA:JW-GIELEWICKI (DRAFT)  
AID/ASIA/TR:TARNOF (INFO)  
AID/ASIA/TR:JSTARLEY (DRAFT)  
AID/ASIA/PO:MONRHLACH (DRAFT)

DESIRED DISTRIBUTION  
ORIGIN ASPO ASTR CHS HQ CPG GCFL GCAS GC PPPB POPR PPCE PPEA ASD  
P ASPH PZEM AAAS JS-03 END

-----010793 160134Z /34

R 151911Z NOV 80  
FM SECSTATE WASHDC  
TO ANEMBASSY COLMB00

UNCLAS STATE 305740

AIDAC

E.O. 12065: N/A

TAGS:

SUBJECT: LOW INCOME HOUSING (333-HG-001)

1. APAC MET NOVEMBER 7 AND APPROVED SUBJECT PID. FOLLOWING ISSUES WERE DISCUSSED AND ARE FORWARDED TO MISSION FOR APPROPRIATE ACTION:

(A) DIRECT HIRE HOUSING OFFICER. NEED FOR DIRECT-HIRE POSITION WAS DISCUSSED AND AGREED TO IN PRINCIPLE. ACTUAL APPROVAL WILL DEPEND ON JUSTIFICATION IN PP AND OBTAINING HOME CLEARANCE. ISSUE OF LONG-TERM TECHNICAL ASSISTANCE WAS ALSO DISCUSSED, AND APAC AGREED WITH MISSION DIRECTOR PREFERENCE THAT SUCH TA BE PROVIDED UNDER HOST COUNTRY CONTRACT.

(B) MACRO-ECONOMIC EFFECTS OF HG. APAC WAS CONCERNED WITH GSL'S ABILITY TO HANDLE THIS ADDITIONAL DEBT AT COMMERCIAL INTEREST RATE (WHILE RECOGNIZING LONG REPAYMENT PERIOD). PP SHOULD INCLUDE TO EXTENT APPROPRIATE AN ANALYSIS OF THE IMPACT OF THIS PROJECT ON THE GSL'S EXTERNAL DEBT AND DEBT SERVICE RATIO, AND ON ECONOMY IN GENERAL.

(C) HG PROGRAM ISSUES: THE APAC DECIDED THAT THE PP

SHOULD IDENTIFY ALL KNOWN DEFICIENCIES IN THE HOUSING PROGRAM (E.G., SUBSIDIES, LACK OF FINANCING INSTITUTIONS, ETC.) AND MAKE RECOMMENDATIONS FOR ADDRESSING THEM. THE PROJECT AGREEMENT SHOULD REQUIRE AN INITIAL PLAN TO BE SUBMITTED BY CSL PRIOR TO FIRST DISBURSEMENT WHICH WOULD INDICATE THE TIMING AND/OR PHASING OF PROPOSED MEASURES FOR THE CORRECTION OR ALLEVIATION OF THE PROBLEM. SUCH A PLAN SHOULD INCLUDE TARGETS FOR THE PLANNED IMPLEMENTATION OF AGREED-UPON MEASURES, INCLUDING ESTABLISHMENT AND REPLENISHMENT OF A REVOLVING FUND, PROPORTIONATE

RECOVERY OF PROGRAM COSTS. INCREASED EFFICIENCY OF THE COLLECTION SYSTEM, IMPROVED CONSTRUCTION DESIGN CRITERIA, ETC.) THE DESIGN APPROPRIATE PLAN UNITS WOULD BE UPDATED PERIODICALLY, AND ANNUAL EVALUATIONS WOULD MEASURE ACTUAL PROGRESS AGAINST ITS TARGETS.

(D) HOUSING OFFICE FINANCING. THE APAC DECIDED THAT A DECISION ON THIS ISSUE BE LEFT TO THE CSL. HOWEVER, THE PP SHOULD INDICATE THE STATUS OF THIS ISSUE OR AGREED-UPON SOLUTIONS.

(E) COST RECOVERY. APAC WAS ESPECIALLY CONCERNED WITH THE ISSUE OF COST RECOVERY IN THE HOUSING PROGRAM AND ITS RELATION TO THE GENERAL QUESTION OF HOUSING FINANCE AND SUBSIDIES. AT A MINIMUM, APAC WOULD LIKE TO SEE PROTECTION BUILT INTO THE REVOLVING FUND SO THAT, ONCE ESTABLISHED, IT DOESN'T BECOME RAPIDLY OCCUPATIONALIZED. REQUEST THIS CONCERN BE ADDRESSED FULLY IN THE PP.

(F) INSTITUTIONAL ARRANGEMENTS. APAC REQUESTS THAT THE PP CONTAIN A DETAILED DESCRIPTION OF THE PROJECT'S INSTITUTIONAL ARRANGEMENTS AND IMPLEMENTATION MECHANISMS, INCLUDING THE PAYMENT AND REPAYMENT MECHANISMS (SEE (E) ABOVE), CONSTRUCTION ASSISTANCE PROVIDED IN AID AND OTHER ASPECTS OF THE PROGRAM, INSPECTION AND REPORTING ARRANGEMENTS, ETC.

(G) ENVIRONMENTAL IMPACT. (SEE AS SUBMITTED ADEQUATELY DESCRIBED HOW SERIOUS ELEMENTS OF THE ENVIRONMENT IMPACT ON THE PROJECT; IT WILL BE AMPLIFIED BY AID/V TO COVER IN MORE DETAIL IMPACT OF PROPOSED CONSTRUCTION ON THE ENVIRONMENT. WHEN THIS IS COMPLETED, WE EXPECT THAT NEGATIVE DETERMINATION WILL BE MADE. REQUEST THAT PP EXAMINE CSL PROCEDURES

FOR REVIEWING AND APPROVING INDIVIDUAL HOUSING LOANS TO INSURE THAT DUE CONSIDERATION IS GIVEN TO ENVIRONMENTAL FACTORS. IN ADDITION, WHEN ASSISTANCE IS CONTEMPLATED TO SUBPROJECTS INVOLVING CONSTRUCTION OF A NUMBER OF UNITS AND/OR WATER OR SEWAGE FACILITIES, WE SHOULD HAVE ASSURANCE THAT EITHER THE DESIGN CRITERIA ARE ENVIRONMENTALLY SOUND OR THAT A SITE-SPECIFIC ENVIRONMENTAL ANALYSIS WILL BE UNDERTAKEN PRIOR TO SUBPROJECT APPROVAL.

2. DURING APAC DISCUSSION, OS/M INDICATED THAT GRANT AMOUNT OF DOLS. 725,000 PROPOSED FOR THIS FISCAL YEAR IS NOT AVAILABLE FROM TIPUP PROJECT. OS/M INDICATED THAT DOLS. 150,000 TO DOLS. 200,000 COULD BE MADE AVAILABLE FROM TIPUP THIS FISCAL YEAR, AND THAT BALANCE OF UP TO DOLS. 1,135,000 TOTAL GRANT MIGHT BE PROVIDED IN SUBSEQUENT FISCAL YEARS SUBJECT TO THE AVAILABILITY OF FUNDS. PP ANALYSIS SHOULD INDICATE MAGNITUDE AND TIMING OF GRANT ASSISTANCE, INCLUDING MINIMUM DOLLAR LEVELS NECESSARY FOR PROJECT IMPLEMENTATION, WITH ABOVE CONSTRAINT IN MIND.

3. IN DISCUSSION WITH MISSION DIRECTOR, OS/M INDICATED THAT TEAM TO PREPARE PP COULD ARRIVE COLONSO EARLY DECEMBER. IF PP PREPARATION PROCEEDS ON SCHEDULE, THIS MIGHT ALLOW A MID-JANUARY AUTHORIZATION. MURKIE

UNCLASSIFIED

Sri Lanka Low Income Housing Guaranty (383-H6-001)

Issues raised at APAC Meeting of 11-7-80

A. Direct Hire Housing Officer/ Long Term T.A.

The PP contains no justification for the Direct Hire housing position in Sri Lanka. Approval for the position was given by AA/Asia prior to the departure of the PP team to Sri Lanka on November 30. The position was discussed with the Ambassador in Colombo in December and he indicated he would provide MODE clearance.

In discussions concerning the long term TA with the Mission Director in December, the Mission Director agreed that an AID contract rather than host country, could be considered if it were more effective.

B. Macro-Economic Effects of HG - This issue is dealt with in the attached analysis.

C. HG Program Issues

Identification of all known deficiencies:

- Lack of housing financing institutions. As a first step in dealing with the problem, the PP proposes that the GSL undertake an overall study of housing finance in Sri Lanka funded by AID. Based on this study a program could be formulated to begin to address the lack of housing finance institutions.

In the meantime, the GSL has appointed a committee to look into the creation of a new Housing Finance Bank utilizing the "contract savings" approach. This committee has grown out of initial discussions with the IFC about possible assistance to such an institution.

Since the question of housing finance institutions is not being specifically addressed by the HG Program and since the longer term solution to the problem can be better addressed after the housing finance study, no initial plan will be required prior to the first disbursement other than agreement to undertake the study.

It should be noted, however, that consideration is being given to servicing the Government's housing loan programs by the State Mortgage and Investment Bank rather than the National Housing Development Authority.

- Subsidies and cost recovery. The GSL has already agreed to add a 2% interest charge to loans for the Aided Self-help Program in 1981 (up to now the program has been at no interest). Simultaneously, a study will be done dealing with the overall subsidy issue; what people now pay for housing, what they would be willing to pay, what groups get now in terms of subsidies, etc.

The purpose will be to devise a phased program of gradually reducing subsidies and moving toward more complete cost recovery. The program would be proposed, discussed and agreed to before the second phase authorization in FY 82.

With regard to improved collections, all new housing starts under the Aided Self-help Program for 1981 which will be financed under the HG; will be "identified" in a separate account so they can be closely monitored. The mechanism is in place to service these loans, the issue is proper follow-up. During the course of the first year the question of transferring the servicing of these loans to an organization specifically equipped to do this, e.g., the State Mortgage and Investment Bank, will be examined.

- Improved House Design and Site Planning. These are areas that the GSL is already working on with the assistance of Overseas Development Administration advisors. It is intended to assign a resident AID contract architect/planner to the National Housing Development Authority to work in this area as well. This will be a continuing process, which will also include emphasis on the use of local building materials, rather than a specific short term effort which can be submitted in the form of a plan before the first disbursement.

- Comprehensive National Housing Policy, Improved Organization and Management. As a result of the new Government's major commitment to housing in 1977 and the creation of new organizational units and authorities to implement this commitment, a number of new policies have been instituted on an ad hoc basis and overlapping functions have occurred between organizations. Here again, AID intends to deal with this deficiency through the assignment of a resident advisor and a series of management studies. This will result in recommendations to be considered before the authorization of a second HG Program.

#### D. Mahaweli Development Authority Housing.

Since the MDA is handling all aspects of the resettlement of families in the Mahaweli project outside of the Ministry of Local Government, Housing and Construction programs and since the GSL decided to concentrate the HG Program exclusively on MLGHC programs, Mahaweli housing has not been dealt with in the PP. This is a completely separate program which may be dealt with by some future HG.

E. Cost Recovery. The HG will go to finance the GSL's Aided Self-help Program in 1981. Beneficiaries receive loan financing for building materials under this program, currently at zero interest rate for the most part. With subsidies running at a high level and deeply ingrained in the public's mind, it is necessary to institute a phased program to begin to recover costs, as outlined in C above, if it is to succeed.

The HG financing will contribute to the GSL's overall allocation to housing; not provide for a separate fund. At present, this allocation is made on a direct grant basis; thus, there is no fund to "de-capitalize." It is intended, however, to institute cost recovery gradually over an agreed upon period so that the need for capital grants by the GSL to finance its housing programs should be less and less over time. This will be a long-term process, however.

F. Institutional Arrangements. This is covered in detail in the PP and its annexes.

G. Environmental Impact.

IEE has been further amplified by AID/W and in accordance with AID Regulation 16, as amended in 1980, a negative threshold decision is recommended. This recommendation is based upon the findings that Housing Guaranty Program in Sri Lanka will not have a substantial adverse impact on the natural environment. Therefore, further consideration of these factors from an environmental point of view is not necessary.

In terms of maximizing the benefits of HG Program, and improving the living conditions of the people in low income areas, specific sub-project designs will address that issue. Technical assistance will be provided to develop more appropriate standards for site selection, site development and building.

## SRI LANKA: CURRENT ECONOMIC PROSPECTS

Sri Lanka is a country on the verge of an economic boom. Its recent growth has caught the attention of the world press (Financial Times August 27, Business Week November 17, and Fortune December 29, 1980) which has compared the country's progress to the success experienced in Singapore. It may be a little premature to make that comparison, but, in fact the country's progress during the last 2½ years has been impressive. During the previous administration from 1970-77 annual GDP growth averaged 2.7% per capita while gross national income increased by an .9%. In contrast, economic growth since the election of the new government in July 1977 has been an impressive 6.7% per annum, unemployment has fallen from 20% to 15%, and capital formation increased to 25% last year over the previous annual rate of 14.5%.

This turnaround is the result of major changes in economic policy, a major public investment program, and an open market philosophy initiated by the current government. The objectives of the Government upon being elected to office were to revive the economy and increase employment through increased capacity utilization in the production sector, stimulation of savings and investment, and encouragement of export and import substitution in food stuffs.

Laying the groundwork to accomplish these objectives required eliminating many of the traditional socialistic economic policies which protected domestic producers and subsidized consumers. Controls were eliminated, but interest rates were allowed to rise (they more than doubled in some cases). In September 1979 the Government took a particularly bold step to reduce the welfare cost by removing the general subsidy on a wide variety of consumer goods.

Policies such as these were designed to encourage private investment. The public investment program is an extremely ambitious undertaking. Its purpose is to rejuvenate the country's infrastructure and create the base for long term growth. To accomplish this, three "lead" investment projects have been identified in the Government's five year investment program. An agricultural/hydroelectric project, a free trade zone, and the construction of 100,000 housing units.

Agricultural production accounts for one third of Sri Lanka's Gross Domestic Product, one half of total employment, and about four-fifths of export earnings. Obviously its sheer size makes this section of vital importance to the economic and social development of the nation.

To enhance the long-term prospects for agriculture the GSL is engaged in a massive project to create hydroelectric power and irrigate 300,000 acres of non-productive land in the dry zones of the island. The Mahaweli Project involves the redirection of rivers and development of a network of reservoirs and irrigation canals. Originally planned as a thirty year effort it was reoriented and scaled back in 1978 to provide significant benefits within five years. When the program is completed it is estimated that 140,000 families will have homesteaded farms in the irrigated land.

- 2 -

Unfortunately, years of neglect and mismanagement of the three main export crops - tea, rubber, and coconut - has left the soil overused and under-nourished. These are all tree crops which require regular replanting to ensure high production. Replanting programs have been introduced and subsidy on fertilizer has been increased, but increased production in this area will not take place until the new plants mature. Last year, output at all three main crops (though above 1978) was below 1970 levels.

Rice production on the other hand, has responded quickly to increased attention. In 1977, rice production increased 34 percent to 80.4 million bushels due largely to favorable weather and the results for the first phase of the Mahweli irrigation scheme. Greater availability of fertilizer, credit, and an increased guaranteed price for a bushel of rice resulted in another 12% increase in 1978. In 1979 and 1980 adverse weather and reduced fertilizer usage resulted in production leveling off. Even so, Sri Lanka appears to be on the threshold of self sufficiency in rice.

In order to encourage industrial development, the GSL has initiated liberalized trade policies, an investment program for a free trade zone in Colombo, tax incentives, and encouraged foreign banks to enter the country. These, combined with the natural resource of a work force that is literate, speaks English, and earns below average wages, have resulted in remarkable progress in attracting foreign investors. In 1978 manufacturing output grew at an 11% rate in real terms. This growth was primarily for Hong Kong garment manufacturers rushing in to take advantage of liberalization. In 1979 output grew at only 4.6% reflecting the entry of more stable companies. Industrial output is expected to grow at 8-10% from 1980-82. An important factor in continued industrial growth is expected to be the 200 square mile free trade zone being developed in the suburbs of Colombo. As of December 1979, 92 proposals involving a total investment of U.S. \$176 million had been approved for the first Investment Promotion Zone. Statistics for 1980 are not available, but interest remained high among foreign companies. For instance in October 1980 Mitoroh Seni Construction signed an agreement to build a 22 million facility within the trade zone. Because of its importance to the long range plans in the country, the free trade zone has been identified as a high priority "level" public interest project. Development of access roads, sewers, electricity and other supporting infrastructure will receive the same high status as the Mahaweli project in agriculture.

The construction of new housing is an especially important part of the Government's development plan. Housing in Sri Lanka has traditionally been below the standards of even most developing Asian countries. During the 1970-77 period, however, the situation reached a crisis stage. In that time less than 5,000 houses were constructed by the government which, combined with regulations that discouraged the private sector's real estate activities, resulted in a badly deteriorated housing stock. The present program calls for the creation of more than 100,000 housing units by 1984. So far, remarkable progress has been made toward that goal. As of October 1980 almost 18,000 units had been completed and another 44,000 were in progress.

Growth such as Sri Lanka has experienced does not occur without cost or problems. If the recent advances are not to be lost, continued heavy investment will be required in infrastructure improvements and support of basic new industries. Investment required during the 1980-84 period in the three lead public investment programs will create a serious drain on the capital resources of the nation. These three programs alone are projected to absorb 33% of the public investment during the period.

- 3 -

In its planning for public investment during the 1980-84 period the Government projects that Rs 127,000 million will be available for investment, 53% of which will be needed for public investment. This would represent an investment rate of 23% of GNP, an ambitious target compared to the 16% average in 1970-77. This investment is expected to come from domestic savings (16% of GNP) and net internal inflows (7% of GNP).

To date these requirements have been met. Domestic savings reached 15% of GNP in 1978 and 1979. Public and private investment have also risen sharply, bringing total investment to 20% of GNP in 1978 and 25% in 1979.

Much of the investment reflected pent-up demand for replacement of antiquated equipment - capital goods imports rose from U.S. \$84 million in 1977 to an estimated \$350 million in 1979. During this period investment approvals for manufacturing also reached a record level of \$300 million.

One effect of this increased investment activity, coupled with removal of subsidies on consumer goods, was a significant increase in the inflation rate. Increased productivity during 1977 and 1978 served to moderate inflationary pressures, but by 1979 inflation was running at an annual rate in excess of 30%. The increase in the rate appears to have slowed in 1980, but inflation remains in the 30-40% range.

Financing for the planned public investments must come from two sources - Government revenues and foreign aid. The 1980-84 investment plan projects that foreign aid will constitute approximately 45% of the funds for the investment program. Aid donors have responded enthusiastically, increasing aid commitments in 1979 by almost 200% over 1977.

On the other hand, Government revenues have not kept pace with the rising cost of investment programs because of falling prices of tea and poor showing in other crops. Initial projections for the investment plan forecast an inflation rate of 10%, well below the rate that is being experienced. The result of this squeeze between revenue and expenditures is that the current investment program is consuming an increasing proportion of resources. The IMF and World Bank have several times during 1980 recommended reductions or delaying of investments to bring expenditures more in line with anticipated revenues. Indications are that serious economic problems developed during 1980. Government revenues were not up to expectations, producing a cash deficit that was funded by the banking system for an estimated Rs 5 million, 8% of GDP. Exports were less than forecasted while the value of imports were greater which resulted in a balance of payments deficit in excess of \$300 million over projections, virtually eliminating the foreign exchange reserve.

In the fall of 1980 the GSL reappraised the economic and budgetary situation and decided to make major revisions in the new 1981-85 investment plan. This is not the first time that plans had to be reoriented to take into account declining revenues and rising prices. In February 1980 the Government cut back several public investment programs to bring expenditures in line with revenues. At the same time general subsidies were removed from virtually all products and food stamps were substituted to free up revenue for the investment programs.

Currently, the specific areas where spending will be reduced have not been identified. The new investment plan will not be available before the second quarter of 1981. The essence of the new plan, however, is purported to be a 25% cross-the-board reduction in all investment programs, including the lead projects.

Reductions in expenditures of this magnitude are difficult decisions for Governments to make and even more difficult politically to implement. The GSL has now, however, successfully carried out other harsh cutbacks in programs for economic reasons, the most notable example being the elimination of subsidies on food stuffs. It appears likely that this latest adjustment will also be accomplished.

### Balance of Payments

The balance of payments current account deficit increased from \$78 million in 1977 to \$372 million in 1979 and for 1980 is estimated to be \$900 million. This rapid deterioration occurred in spite of the doubling of non-traditional exports between 1977 and 1979 and the significant growth in tourism and private remittances (largely from Sri Lanka citizens working in the Middle East).

The primary cause for the deficit has been the continued poor performance of tea crops which are by far the most important export of Sri Lanka. Tea exports, which make up almost 40% of total exports, have declined steadily since 1977 (from \$410 million to \$267 million) following the trends in world tea prices. Rubber and coconut exports, on the other hand, increased by 20 and 30 percent respectively (in 1979, but like tea these changes were due to world prices rather than any significant changes in volume). Rubber export volume eventually declined during 1979 and coconut products rose only a small amount.

Compounding the effect of decreased exports has been the strong market for imports. Between 1977 and 1979 imports grew at an average annual rate of 42% in nominal terms. In 1979 the growth in imports was led by investment goods which were up 58% for \$215 million 1978 to \$350 million in 1979. This, of course reflects the massive rehabilitation and development going on in the country. Petroleum imports were also up significantly although volume remained virtually unchanged because of approximately a 40% increase in price during the year.

In the past the large current deficits have been offset by foreign aid disbursements and other non-memetary capital inflows. In December 1979 net international reserves were \$256 million, with gross reserves sufficient to cover four months of imports. In 1980, however, preliminary estimates are that the expected deficit in the current account will be met only two thirds by aid and other non-mometary external capital, eliminating the international reserves.

The increasing of the current account deficit is the result of the rapid expansion of the economy and import liberalization policies which are considered desirable and in fact are the objective of the increased aid. The rate of the increase of the deficit in 1980 has created some concern. Yet, there are no indications that a similar increase in the deficit will occur in 1981, if the Government carries through on the sharp reductions in expenditures which are now being planned.

- 5 -

The current account deficit is, however, expected to continue to grow over the next five years. In early 1980 the official Government projections of this deficit were \$620 million in 1980, \$642 million in 1981, and \$693 million in 1982, and \$791 million in 1983. These estimates have been overtaken by events specifically the estimated \$900 million deficit for 1980. At this time, projections of future deficits cannot be made. But, it is safe to assume that Sri Lanka will need increasing foreign grants and loans to maintain its expansion.

### External Debt

As discussed in the previous section, the unexpected surge in the current account deficit during 1980 has created an urgent realization by the Government of Sri Lanka that it must restructure its investment plans. At this time, the capital requirements of the program are being reduced and benefits from the projects are being accelerated wherever possible. Most observers are optimistic about the Government's ability to make the hard decisions necessary. Even so, the continued success of the economic returns will be dependent upon an increased flow of external assistance.

The ability of Sri Lanka to afford the increased external assistance has been greatly enhanced during the last five years. The country's debt profile has been improving consistently since 1974. In 1979 the share of total debt outstanding, with initial maturity at less than 10 years, declined 2.5 percent to 4 percent. On the other hand, debt with maturity in excess of 15 years made up 87% of the outstanding debt in 1979. In conjunction with extending the maturity of the debt, greater emphasis has been placed on obtaining concessional terms and increasing the grant element of aid received. Currently, 63% of the external debt is on concessional terms, and the debt service ratio in 1979 was approximately 8%, down from 10% in 1978. This debt service represents approximately 7% of the value of goods and services exported.

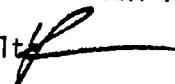
Total debt commitments outstanding as of December 1979 amount to \$1.8 billion with \$1.1 billion disbursed and \$0.6 million undisbursed. Of the total committed, the United States is obligated to lend \$285 million of which \$231 million had been disbursed as of the end of 1979.

### Proposed Housing Guaranty Loans

A Housing Guaranty loan of \$25 million would increase total outstanding debt by only 2.4% and the total proposed \$100 million by 5.6% over four years. Though not on "concessional terms," the costs will be less than straight commercial lending. With the thirty year amortization of Housing Guaranty loans, the debt service ratio will be hardly affected and since the borrowings would provide free foreign exchange and the import component of the aided self help programs being financed is low, the Housing Guaranty loans would effectively help to GSL ameliorate some of its shorter term debt.

January 27, 1981

ACTION MEMORANDUM FOR THE ACTING ASSISTANT ADMINISTRATOR, BUREAU FOR ASIA

FROM: ASIA/PD, G. R. Van Raalt 

SUBJECT: Sri Lanka - Low Income Housing Program Assistance (383-HG-001)  
Guaranty Authority

Problem: Your signature is required on the attached Guaranty Authorization (Tab A) to authorize a Housing Guaranty for the Government of Sri Lanka in the amount of \$25 million for FY 1981.

Discussion: The proposed Housing Guaranty (HG) program will support implementation of the low income housing policy and programs of the Government of Sri Lanka (GSL) for fiscal years 1981-1984, with an initial guaranty of \$25 million to be authorized. It is anticipated that requests will be made to you to authorize an additional \$25 million in guaranties in three succeeding fiscal years based in each case upon a prior determination by AID of satisfactory performance by the GSL in carrying out its housing policies, programs and commitments to AID under previous guaranty agreements. The GSL will be advised formally that each additional authorization is subject to the mutual agreement of the parties as to the progress of the program in meeting certain stated goals including development of, inter alia, satisfactory cost recovery policies, improved physical design, and a comprehensive national housing policy.

The proposed HG for Sri Lanka was approved by the Asia Project Advisory Committee (APAC) on January 14, 1981. Minor revisions in the Project Paper (PP) (Tab B) were made by AID/W at the request of the APAC, particularly the addition of page 56 which outlines the actions of the GSL to be reviewed prior to future authorizations.

In addition to the HG, centrally-funded long-term technical assistance will be provided to the GSL Ministry of Local Government, Housing and Construction, to assist the Ministry to design and implement its low income housing programs as well as to assist in policy and program planning. DS/H has agreed that this long-term resident technical assistance, at an estimated cost of \$800,000, will be funded from the resources of AID's Integrated Improvement Program for the Urban Poor (IIPUP), a centrally funded program administered by DS/H. Short term consultants, studies and training estimated to cost \$175,000 will be funded by USAID/Sri Lanka from the existing Development, Studies and Training Project (383-0044).

-2-

The program has been examined for its overall soundness, including technical, financial, economic, social, environmental and institutional aspects of its design and implementation. It was found that the support of Sri Lanka's low-income housing program proposed here should not significantly limit the future flexibility of the GSL to reduce its capital investment budget should that be necessary. The expected beneficiary impact and the evaluation plan were found to be acceptable. An IEE recommending a negative threshold determination, i.e., no foreseeable significant adverse effects on the environment, has been approved by the Asia Bureau Environmental Officer. The institutional and policy development embodied in the program's design conform to the policies and goals of AID in the shelter sector.

Recommendation: That by signing the attached Guaranty Authorization (1) you approve the initial element of an anticipated four-year guaranty program, it being understood that separate guaranty authorizations in the amounts of up to \$25 million will be presented for your signature in future years based on appropriate documentation indicating progress in implementation, and (2) you authorize a guaranty of up to \$25 million in FY 1981.

Attachments:

- Tab A - Guaranty Authorization
- Tab B - Project Paper
- Tab C - State 17748

January 27, 1981

## MEMORANDUM

TO: DS/H, Mr. David McVoy

FROM: GC/H, Michael G. Kitay  
DS/H, Philip-Michael Gary

SUBJECT: Sri Lanka 383-HG-001; Conversation with GC/ASIA, Herb Morris and Steve Tisa Concerning the AA/ASIA Fred Schieck Authorization

On Monday, January 26, 1981, Messrs. Morris and Tisa telephoned DS/H to discuss the text of the Action Memorandum and authorization. Fred Schieck's position as reported to us is in essence that he doesn't want the two documents to refer to a \$100 million program. According to Herb Morris, Schieck knows and accepts that the project paper refers to a \$100 million figure, that A.I.D. has a kind of \$100 million commitment to the Government of Sri Lanka (GSL) which would be difficult to renege on, that the draft Implementation Agreement now contains and will retain the Section 2.03 type language on "Program Continuation" which refers to a total of \$100 million, that negotiations in Colombo will no doubt deal with the terms on the remaining \$75 million not now authorized, that the treatment of the HG's additional funding would differ from the Mahawohli project scheme, and that the GSL and A.I.D. have from the inception treated this as a \$100 million project. Nevertheless, Mr. Schieck prefers to handle things without recording his express "approval in principle" of the \$100 million figure.

We discussed the availability of seeking some more clarification from Mr. Schieck who is leaving Tuesday, January 27, 1981, on a TDY and we discussed whether the failure to formally approve the \$100 million figure will make it more difficult in the future to seek additional authorization. It was decided to leave things as is.

AD/ASIA, Sean Walsh

*Handwritten notes:*  
 1. ...  
 2. ...  
 3. ...  
 4. ...

GUARANTY AUTHORIZATION

SRI LANKA

Low Income Housing  
383-HG-001

Pursuant to the authority vested in the Acting Assistant Administrator, Bureau for Asia, by the Foreign Assistance Act of 1961, as amended (FAA), and the delegations of authority issued thereunder, I hereby authorize the issuance of guaranties pursuant to Section 222 of the FAA of not to exceed Twenty-Five Million United States Dollars (\$25,000,000) in face amount, assuring against losses of not to exceed one hundred percent (100%) of loan investment and interest with respect to loans by eligible United States investors (Investor) acceptable to A.I.D. made to finance a low income housing program in Sri Lanka. The guaranteed loans shall be used to finance aided self-help housing and slum and shanty upgrading activities of the Government of Sri Lanka (the Borrower).

These guaranties shall be subject to the following terms and conditions:

1. Term of Guaranty: The loans shall extend for a period of up to thirty (30) years from the date of disbursement and may include a grace period of up to ten (10) years on repayment of principal. The guaranties of the loans shall extend for a period beginning with disbursement of the loans and shall continue until such time as the Investor has been paid in full pursuant to the terms of the loans.
2. Interest Rate: The rate of interest payable to the Investor pursuant to the loans shall not exceed the allowable rate of interest prescribed pursuant to Section 223(f) of the FAA and shall be consistent with rates of interest generally available for similar types of loans made in the long term United States capital markets.
3. Government of Sri Lanka (GSL) Guaranty: The Government of Sri Lanka shall provide for a full faith and credit guaranty to indemnify A.I.D. against all losses arising by virtue of A.I.D.'s guaranties to the Investor or from non-payment of the guaranty fee.
4. Fee: The fee of the United States shall be payable in dollars and shall be one-half percent (1/2%) per annum of the outstanding guaranteed amount of the loans plus a fixed amount equal to one percent (1%) of the amount of the loans authorized or any part thereof, to be paid as A.I.D. may determine upon disbursement of the loans.

5. Other Terms and Conditions: The guaranties shall be subject to the following terms and conditions and to such other terms and conditions as A.I.D. may deem necessary:

A. The shelter and community facilities and services financed in connection with the program shall be suitable for below median income families.

B. Prior to A.I.D.'s guaranty of the first disbursement and except as A.I.D. may otherwise agree, the Borrower shall deliver to A.I.D. in form and substance satisfactory to A.I.D.:

(1) A project delivery plan containing, among other things, a description of the procedures and criteria to be followed for subproject physical design, site selection, beneficiary selection, and indicating the anticipated cash flow and cost estimates and cost recovery policies and procedures for 1981.

(2) Borrower's agreement on the scopes of work and schedules for the housing subsidy study and the housing policy study.

C. The Borrower shall covenant to provide necessary support for the technical assistance mutually agreed upon by A.I.D. and the GSL, and to complete the housing subsidy study and begin major portions of the national housing policy study during the phase of the GSL's housing program supported by this loan guaranty.

Clearances

ASIA/PD, G. R. Van Raalte  
ASIA/PNS, Arthur Handly  
GC/ASIA, Herbert Morris  
DS/H, David McVoy

Initial

Date

[Handwritten Initials]  
[Handwritten Initials]  
[Handwritten Initials]

1/27  
1-27-81  
1-27-81

Signature [Handwritten Signature]  
Acting Assistant Administrator  
Bureau for Asia

GC/H:MK[initials]; GC/ASIA:HM[initials]; ASIA/PD/SA:JOS[initials] Or:fv:1/26/81:X58450

**THE HOUSING GUARANTY PROGRAM**

**STATUTORY CHECKLIST**

**NAME OF COUNTRY**

**PROJECT NO. -HG-**

**ANSWER YES OR NO PUT  
PP PAGE REFERENCES  
AND/OR EXPLANATIONS  
WHERE APPROPRIATE**

**A. General Criteria Under HG Statutory Authority.**

**Section 221(a)**

Will the proposed project further one or more of the following policy goals?

- (1) is intended to increase the availability of domestic financing by demonstrating to local entrepreneurs and institutions that providing low-cost housing is financially viable;
- (2) is intended to assist in marshalling resources for low-cost housing;
- (3) supports a pilot project for low-cost shelter, or is intended to have a maximum demonstration impact on local institutions and national; and/or;
- (4) is intended to have a long run goal to develop domestic construction capabilities and stimulate local credit institutions to make available domestic capital and other management and technological resources required for low-cost shelter programs and policies?

YES (PP 14 & 15)

---

YES (PP 4, 12 & 14)

---

YES (PP 12, 14 & 15)

---

YES (PP 12 & 14)

---

**Section 222(a)**

Will the issuance of this guaranty cause the total face amount of guaranties issued and outstanding at this time to be in excess of \$1,555,000,000?

NO

---

Will the guaranty be issued prior to September 30, 1982?

YES (\$25 million during FY '81)

---

**Section 222(b)**

Will the proposed guaranty result in activities which emphasize:

- (1) projects providing improved home sites to poor families on which to build shelter and related services; or

YES (PP 5, 6 & 17)

---

(2) projects comprised of expandable core shelter units on serviced sites; or

YES (PP 5, 6 & 14)

(3) slum upgrading projects designed to conserve and improve existing shelter; or

YES (PP 5, 6 & 13)

(4) shelter projects for low-income people designed for demonstration or institution building; or

YES (PP 5, 6 & 13)

(5) community facilities and services in support of projects authorized under this section to improve the shelter occupied by the poor?

YES (P 16)

Section 222(c)

If the project requires the use or conservation of energy, was consideration given to the use of solar energy technologies, where economically or technically feasible?

N/A

Section 223(a)

Will the A.I.D. guaranty fee be in an amount authorized by A.I.D. in accordance with its delegated powers?

YES

Section 223(f)

Is the maximum rate of interest allowable to the eligible U.S. Investor as prescribed by the Administrator not more than one percent (1%) above the current rate of interest applicable to housing mortgages insured by the Department of Housing and Urban Development?

YES

Section 223(h)

Will the Guaranty Agreement provide that no payment may be made under any guaranty issued for any loss arising out of fraud or misrepresentation for which the party seeking payment is responsible?

YES

Section 223(j)

(1) Will the proposed Housing Guaranty be coordinated with and complementary to other development assistance in the host country?

YES

(2) Will the proposed Housing Guaranty demonstrate the feasibility of particular kinds of housing and other institutional arrangements?

YES

(3) Is the project designed and planned by A.I.D. so that at least 90 percent of the face value of the proposed guaranty will be for housing suitable for families below the median income, or below the median urban income for housing in urban areas, in the host country?

YES

(4) Will the issuance of this guaranty cause the face value of guaranties issued with respect to the host country to exceed \$25 million in any fiscal year?

NO

(5) Will the issuance of this guaranty cause the average face value of all housing guaranties issued in this fiscal year to exceed \$15 million?

NO

Section 238(c)

Will the guaranty agreement provide that it will cover only lenders who are "eligible investors" within the meaning of this section of the statute at the time the guaranty is issued?

YES

B. Criteria Under General Foreign Assistance Act Authority.

Section 620/620A

1. Does the host country meet the general criteria for country eligibility under the Foreign Assistance Act as set forth in the country eligibility checklist prepared at the beginning of each year?

YES

2. Is there any reason to believe that circumstances have changed in the host country so that it would now be ineligible under the country statutory checklist?

NO

**PROJECT DESIGN SUMMARY  
LOGICAL FRAMEWORK**

Life of Project:  
From FY \_\_\_\_\_ to FY \_\_\_\_\_  
Total U. S. Funding \_\_\_\_\_  
Date Prepared: \_\_\_\_\_

Project Title &amp; Number: \_\_\_\_\_

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTION
<p><b>Program or Sector Goal:</b> The broader objective to which this project contributes: <b>1. To improve shelter &amp; environmental conditions affecting the urban &amp; rural poor.</b></p>	<p>Measures of Goal Achievement: <b>1. Increase in the number &amp; percentage of low-income households living in permanent and/or improved shelter units. 2. Decrease in the number &amp; percentage of direct construction units being built by GSL &amp; incorporation of improved cost-effective schemes in the next five year plan (82-86)</b></p>	<p><b>1. Project Monitoring and evaluation. 2. Records of the MLGHC</b></p>	<p>Assumptions for achieving goal targets <b>1. The shelter needs of poor continue to be per as an important concern necessary public invest are approved. 2. GSL and resident adv develop improved admini tive systems which are accepted.</b></p>
<p><b>Project Purpose:</b></p> <p><b>1. To assist the GOSL develop shelter policies and structure programs and solutions which increase the effectiveness of limited government resources and provide maximum benefit to lower income families.</b></p>	<p>Conditions that will indicate purpose has been achieved: End of project status.</p> <p><b>1. A reduction in the level of subsidies in ASH, Model Villages and slum &amp; shanty upgrading programs. 2. The preparation and adoption of a national housing policy</b></p>	<p><b>1. Records of the MLGHC 2. A comprehensive National Housing Policy 3. Improved allocation procedures. 4. Reduction in direct government allotment for housing without decreasing Government production.</b></p>	<p>Assumptions for achieving purpose: <b>1. Government will make increased shift to ASH Alum and Shanty Upgrad 2. MLGHC accept progr cost recovery and subsl reductions.</b></p>
<p><b>Outputs:</b></p> <p><b>1. Low-cost shelter solutions Aided self-help units. Neighborhood upgrading, Rural village housing, small scale business development, Community facilities</b></p>	<p>Magnitude of Outputs: <b>Upgraded slum &amp; shanty units ± 3600 * Aided self help units ± 3200 Units * Units - including model villas. Community facilities to be determined by individual site needs. * year with mix to be adjusted annually.</b></p>	<p><b>1. AID monitoring and annual DS/H evaluation. 2. MLGHC records</b></p>	<p>Assumptions for achieving output: <b>1. Appropriate staff &amp; administrative support is given Slum and Shanty Upgrad 2. MLGHC will resist p to continue direct cons programs. 3. No major increases in inflation or program cost incurred beyond the lev projections already inc in project cost estimat</b></p>
<p><b>Project Inputs:</b></p> <p><b>1. HC Loan 2. Local Investment a. GOSL participation to over-all program &amp; community facilities b. Beneficiary labor c. Land 3. AID funded Technical Assistance</b></p>	<p>Implementation Target (Type and Quantity)</p> <p><b>1. US \$100 million (first year \$25 million) 2. US \$256 million over 1980-84 3. IIPUP grant- 6 person yrs. \$800,000 Dev. grant-Studies/Training \$175,000</b></p>	<p><b>1. AID records 2. AID monitoring and evaluation report. 3. Technical advisors reports.</b></p>	<p>Assumptions for providing inputs: <b>1. Approval in 1981,82, by AID of 25 million ea successive branches of Guaranty authority. 2. H available. 3. GSL accep loan terms. 4. Completi agreement between AID &amp; for technical assistance 5. Technical advisors a</b></p>

Allocation of Government Capital Expenditure 1980 — 1984  
(A) SUMMARY — ALL SECTORS

	1980	1981	1982	1983	1984	1980 — 1984			Foreign Aid
						F	L	T	
1. Total Public Investment ..	9,384.0	11,516.0	13,631.0	15,630.0	17,180.0	—	—	67,341.0	—
2. Extra Budgetary Resources ..	475.0	615.0	750.0	900.0	1,050.0	—	—	3,790.0	—
3. Total Public Investment (Govt. Budget) ..	8,909.0	10,901.0	12,881.0	14,730.0	16,130.0	—	—	63,551.0	—
4. Total Budgetary Provisions ..	11,571.0	12,201.1	12,957.1	14,123.9	12,304.3	34,245.7	28,911.7	63,157.4	21,227.0
Allocated to—									
(i) Agriculture									
(1) Accelerated Mahawell ..	4,416.6	5,687.9	6,270.6	7,012.8	6,259.1	17,862.5	11,780.5	29,647.0	14,968.3
(2) Canal Irrigation ..	2,015.0	3,397.0	4,014.0	4,471.0	4,310.0	13,362.0	4,845.0	18,207.0	11,030.0
(3) Field Crops and Minor Export Crops ..	995.5	673.3	761.0	1,061.7	617.6	1,272.7	2,832.4	4,109.1	1,050.0
(4) Forestry and Land Settlement ..	767.6	634.7	583.5	579.0	429.2	1,210.0	1,784.0	2,994.0	1,450.9
(5) Plantations ..	120.6	239.3	255.7	303.6	358.8	427.0	851.0	1,278.0	142.4
(6) Animal Husbandry ..	192.4	240.4	298.8	364.5	366.6	600.7	862.0	1,462.7	956.9
(7) Fisheries ..	20.3	163.2	109.4	18.0	13.5	232.7	165.7	398.4	146.8
(ii) Housing, Water Supply and Urban Development									
(1) Housing and Construction ..	236.2	335.0	248.2	215.0	163.4	757.4	440.4	1,197.8	141.4
(2) Water Supply ..	1,993.0	2,370.0	2,575.6	2,476.4	2,260.0	4,262.0	7,353.2	11,615.2	1,916.2
(3) Urban Development ..	1,158.0	1,130.0	1,500.0	1,420.0	1,190.0	1,440.0	4,958.0	6,398.0	6.4
(4) Unallocated ..	485.0	1,044.0	1,015.6	656.4	556.0	2,475.0	1,282.0	3,775.0	1,929.8
(iii) Industry ..	350.0	196.0	—	—	—	163.8	382.2	564.0	—
(iv) Economic Overheads									
(1) Transport ..	—	—	—	400.0	514.0	183.0	731.0	914.0	—
(2) Power ..	623.9	116.0	53.2	56.3	55.4	483.6	421.2	904.8	—
(3) Telecommunication ..	4,070.0	3,418.0	3,379.0	3,761.0	2,789.0	10,279.0	7,138.0	17,417.0	4,059.0
(4) Other ..	1,257.0	1,362.0	925.0	869.0	902.0	3,911.0	1,404.0	5,315.0	1,372.0
(v) Social Overheads									
(1) Education ..	583.0	471.0	679.0	1,019.0	300.0	2,527.0	525.0	3,952.0	387.0
(2) Health ..	466.0	345.0	246.0	383.0	219.0	1,359.0	300.0	1,659.0	1,197.0
(3) Other ..	1,764.0	1,240.0	1,529.0	1,490.0	1,368.0	2,482.0	4,909.0	7,391.0	1,103.0
(1) Education ..	468.3	609.2	737.7	817.4	940.8	1,349.7	2,223.7	3,573.4	263.5
(2) Health ..	259.8	352.4	390.0	338.0	383.5	378.7	1,445.0	1,723.7	77.6
(3) Other ..	151.5	179.2	255.5	377.8	457.7	880.0	541.7	1,421.7	84.9
	57.0	77.6	92.2	101.6	99.6	191.0	237.0	428.0	101.0

**—HOUSING WATER SUPPLY AND URBAN DEVELOPMENT**

	1980	1981	1982	1983	1984	1980-1984			Foreign Aid
						F	L	T	
1. <i>Housing and Construction of which housing</i> ..	1,158.0	1,130.0	1,500.0	1,420.0	1,190.0	1,440.0	4,958.0	6,398.0	—
(i) Annual construction programmes	(940.0)	(1,000.0)	(1,300.0)	(1,200.0)	(1,000.0)	1,344.0	(4,096.0)	(5,440.0)	—
ON-GOING WORKS ..	218.0	130.0	200.0	220.0	190.0	96.0	862.0	958.0	6.4
(ii) Urban Housing ..	650.0	563.0	898.7	990.0	900.0	1,200.0	2,801.7	4,001.7	—
(iii) Aided Self-help houses ..	140.0	293.1	243.3	—	100.0	78.0	698.4	776.4	—
New Works									
(iv) Electoral Housing ..	150.0	144.0	158.0	210.0	—	66.2	595.8	662.0	—
2. <i>Water Supply</i> ..	485.0	1,044.0	1,015.6	656.4	556.0	2,475.0	1,282.0	3,757.0	1,929.8
(i) Annual Programme ..	55.6	27.2	27.0	33.4	39.9	59.0	124.1	183.1	28.0
(ii) ON-GOING WORKS ..	44.3	115.9	92.6	—	—	151.7	101.1	252.8	2.4
New Works									
(iii) South West Coastal W.S.S.I. ..	149.0	55.0	60.5	34.2	—	190.9	108.0	298.7	190.9
(iv) Greater Colombo W.S.S. II ..	50.0	90.8	99.8	109.6	83.7	266.3	167.6	433.9	266.3
(v) Greater Colombo Sewerage Scheme ..	50.0	363.0	399.3	292.2	315.7	1,136.2	284.0	1,420.2	1,136.3
(vi) Trincomalee W.S.S. ..	25.0	242.0	199.6	73.0	40.3	405.9	174.0	579.9	—
(vii) Other (rural & semi-urban schemes) ..	111.1	150.1	136.8	114.0	76.3	265.0	323.3	588.3	306.0
3. <i>Urban Development</i> ..									
(i) Kotte Parliamentary Complex* ..	350.0	196.0	—	—	—	163.8	382.2	546.0	—
4. <i>Provision for new projects 1983 and 1984</i> ..	—	—	—	400.0	514.0	183.0	731.0	914.0	—

\*In addition to the budgeted provision, approximately Rs. 500 million for the Kotte Complex and other expenditures of Urban Development will be met from Debentures up to a ceiling of Rs. 3,000 million.

ASH AND RELATED PROGRAM  
SPECIFICATIONS

TABLE OF CONTENTS

- I. ASH Loan Program Description.
- II. Physical Description of ASH Project.
- III. Current Status of ASH Projects.
- IV. ASH Loan Terms and Magnitude.

## I. ASH Loan Program Description

ASH loans are granted by NHDA to families who have formed a building society to implement an ASH plan. Each individual ASH loan is allocated for the following purposes:

1. Building materials for an individual house (the bulk of the loan).
2. Building materials, if any are required, for infrastructure.

Included in "infrastructure" is the construction of internal access roads through the ASH development and the construction of 1 well per 7 units. Frequently, electricity is included but is separately funded by district government development grants and installed by government contractors.

Development of ASH funded infrastructure requires almost exclusively manual labour - provided entirely by the ASH beneficiaries (including tools required; no machinery used), with NHDA technical supervision. Where building materials are required, they are usually for the following infrastructure work that supplements the primary labor-based infrastructure work just mentioned: small culverts or retaining walls where necessary, masonry work on the wells, 1 or 2 hume pipes for surface draining.

The infrastructure component of each beneficiary loan is one equal part of the entire ASH development loan. For example, if 50 families form the building society organization required to implement an ASH project, included in each family's loan will be one fiftieth of the infrastructure building materials loan received by the building society. All units in an ASH development are built to be the same size and, therefore, the infrastructure cost charged per unit is constant, regardless of family size.

The Building Materials Corporation (in which the GSL maintains a controlling interest) is the supplier of all ASH building materials.

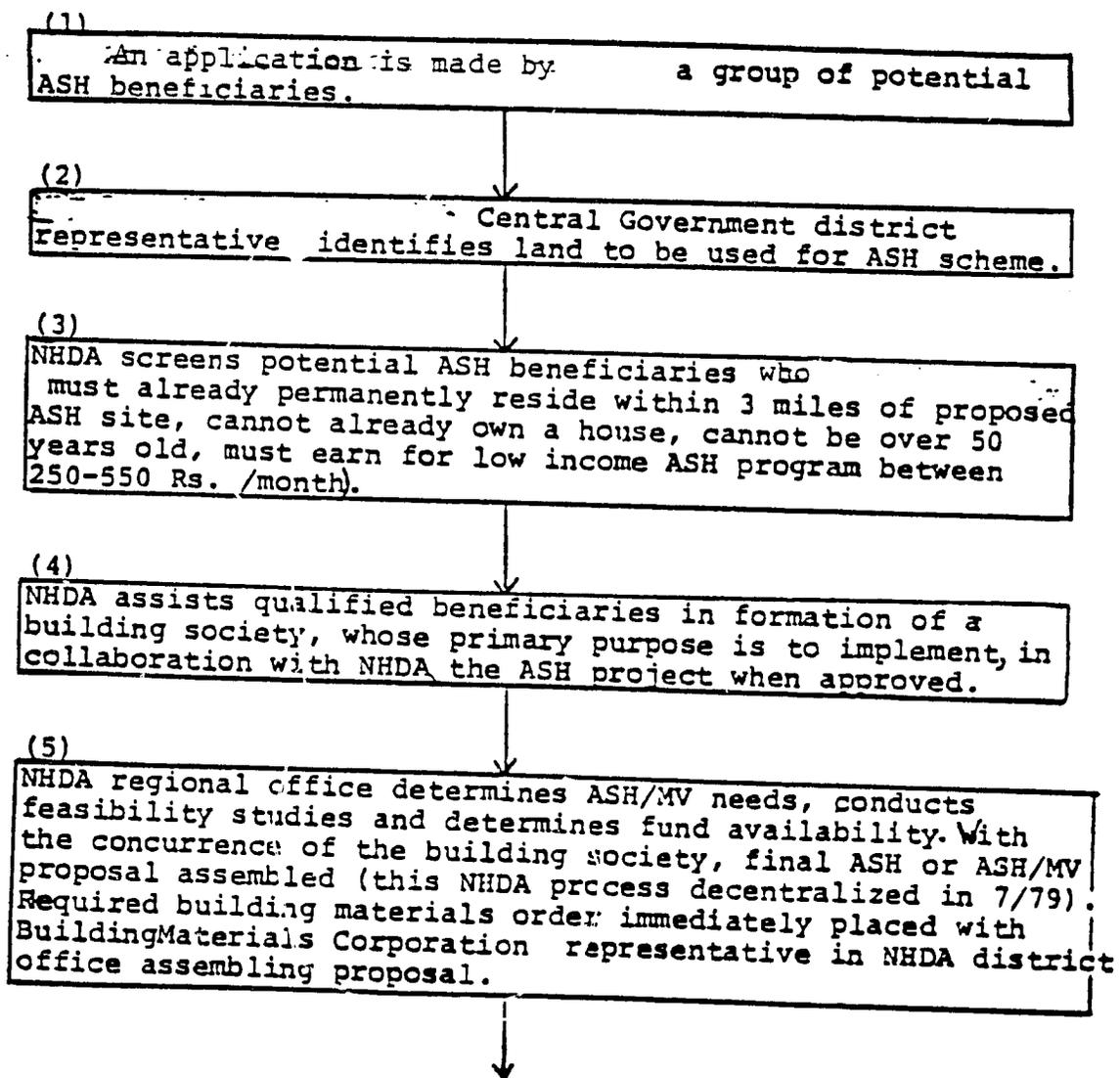
The two main categories of ASH projects are ASH and ASH/Model Villages (MV). ASH projects are directed to the more developed rural areas and some urban areas and are limited to loans to beneficiaries for house and infrastructure building materials. ASH/Model Villages Projects consist of the standard ASH housing and basic infrastructure

construction materials loans, combined with various non-ASH funded "higher level" infrastructure and community development projects, e.g. running water, electricity, school, community center (which can include health clinic, preschool, postal center and/or marketing facilities).

These non-ASH funded projects in ASH developments are grants, funded, constructed and administered by the appropriate government agency (e.g., a school would be the responsibility of the Education Department, a health clinic would be the responsibility of the Health Department, etc.)

The ASH project development process is outlined below:

#### ASH PROJECT DEVELOPMENT PROCESS



(6)

MLGHC arranges a meeting at or near proposed ASH site between building society/NHDA and the local AGA (Assistant Government Agent) whose inputs are required in terms of land acquisition and MV projects (electricity, school, health clinic etc.) At meeting, final decisions made regarding amenities to be provided and funding/implementation responsibilities allotted.

(7)

NHDA District Manager, in conjunction with District AGA, coordinates, schedules, administers and monitors implementation of ASH or ASH/MV project. Voluntary organizations such as SARVODAYA, SEDEC are active in financially or technically assisting those beneficiaries unable to provide required labor inputs.

The responsibilities of the primary ASH program participants are summarized below:

1. NHDA screens initial list of potential beneficiaries to determine eligibility to be part of an ASH or ASH/MV scheme.
2. AGA's (one per division; average of 8 divisions per administrative district) identify government land where the ASH scheme can be built. Source of much of the government land came from the 1972 Land Reform Act in which a 50 acre/family land ownership ceiling was imposed, with the land in excess of 50 acres being turned over to the Central Government. In ASH/MV schemes, AGA's obtain and coordinate financial, technical and implementation resources of those government agencies responsible for the provision of the MV public service or works projects planned (e.g., electricity, health clinic, school, market place, etc.).
3. NHDA loans the building materials to the beneficiaries for house and internal access road/well infrastructure construction. It also provides all technical assistance as well as government interfacing and administration coordination required, from the planning to the implementation through the building loan collection stages of ASH schemes. Included is the building materials ordering from the Building Materials Corporation.

4. The Beneficiaries provide all labor required in the construction of the housing units and internal access roads/well infrastructure. They are also responsible for paying back NHDA for the building materials.
5. Voluntary Organizations (e.g. SEDEC, SARVODAYA) provide labor or financing to contract the required labor to those beneficiaries who are unable to meet the labor requirements of the ASH program.
6. Government Agencies, under the direction of the AGA and NHDA District Manager, provide the public works or services specified by an ASH/MV plan, from planning to implementation to maintenance. Which government agency gets involved depends on the final ASH/MV specifications regarding public facilities and services.

It should be pointed out that the ASH program is divided into a low income and a middle income sub-program. The income of the beneficiaries must be 250-550 Rs./month for them to qualify for the low income sub-program and 550-1100 Rs./month for them to qualify for the middle income sub-program. The middle income sub-program units average 570 square feet and the low-income sub-program units average 392 square feet.

## II. Physical Description of ASH Projects

On average, ASH and ASH/MV projects are 40 and 50 units respectively although they can be as large as 100 units. The largest ASH developments are 100 units - Ambalangoda in the Galle district, Kimbulapitiya in the Gampah district. The largest ASH/MV development is 325 housing units, located in the Badulla district. An ASH or ASH/MV project, once it has been approved, takes from three months to one year to be completed.

Of the 168 electorates, all but the following electorates have ASH projects:

### 1. Colombo Administrative District.

- Colombo North
- Colombo Central
- Colombo East
- Colombo West
- Borella

- Dehiwela
- Ratmalana
- 2. Gampah Administrative District
  - Attanagala
- 3. Galle Administrative District
  - Galle
- 4. Kandy Administrative District
  - Kandy

These electorates are the most urbanized.

There are no MV projects in the Colombo Metropolitan area. The MV project closest to Colombo is Pahangama, located in the Panadura electorate 16 miles southwest of the Colombo city limits.

The physical plan of ASH and ASH/MV projects take one of two forms:

- 1) A parcel of land within or adjacent to an existing village is obtained from Central Government. Within this parcel, the housing units and MV facilities are constructed, with roads connecting the parcel to the existing nearby village. In the first ASH/MV projects, a grid or row housing configuration was employed, setting the development apart from the more haphazard housing configuration of the existing village. The most recent projects do not follow a rigid grid pattern but are more haphazardly planned in order to blend in with the existing village and the surrounding contours of the land/natural landscape. This more recent type of development ensures that the project is not physically or socially isolated from the neighbouring village or community.
- 2) Several parcels of land interspersed within an existing village are obtained from Central Government, on which the planned ASH/MV units and facilities are constructed. This plan of many land parcels intermixed among village housing/building units further ensures that the ASH beneficiaries are well integrated into the physical/social network of an existing village. This physical planning lay-out has become increasingly common and is favoured by NHDA for future ASH projects

over the preceding one parcel plan.

III. Current Status of ASH Projects (9/30/80)

Target (family) income Group (Rs/mo)		Units Completed	Units where work in progress
550-1100	ASH (middle income)	339	1258 ✓
250-550	ASH (low income)	5947	17,334
	TOTAL:	6286	18,592

The total expenditures to date on this work (Dec. 1980) is Rs 248,649,229. The Building Materials Corporation bills from which this figure is derived do not indicate whether the amounts were incurred by a low or middle income scheme. Although NHDA is capable of deriving such a breakdown, it would take considerable time.

The middle income ASH sub-program is expected to be revised in the near future and, therefore, no additional units are being planned.

#### IV. ASH Unit Costs and Loan Terms

The following are current (12/80) unit cost estimates for the ASH Program based on 40-50 unit projects:

1) Building Materials	Unit costs
• Home	Rs.22,000(15-18,000 Rs. during most of 1980)
• Infrastructure (internal access roads, water wells)	Rs. 2,200 (usually 10% of home building materials)
	<hr/>
	Rs.24,200

These building materials costs are still considered to be higher than necessary by NHDA. An experimental ASH project in Matugama in which "traditional" building materials (i.e., bricks, cement) are being used instead of kiln-burned bricks and impacted cement has cost only 18,000Rs/unit instead of 24,200 Rs/unit. Only the northwestern and northeastern areas of Sri Lanka lack the local materials from which bricks and cement are made (latherite rocks, cinvaram, sand cement, kabook).

The loan terms for the low income program are 30 years with no interest, down payment of collateral requirements. An initial deposit of 50 Rs. per beneficiary is required - deducted from the initial loan payments made by the beneficiary. The middle income ASH sub-program terms differ in that a 6% interest rate is charged.

The land on which the unit is constructed is leased from NHDA for a nominal 12 Rs./per year (ground fee) for a 33 year period, with the option to renew available to the beneficiary.

To qualify for an ASH program, a family cannot already own a house, must be of the appropriate income/age category and must show proof of receiving a regular form of income. NHDA reviews each application using these criteria.

Loan collections are administered by NHDA's 24 regional offices, one office per administrative district.

District	Housing Units		Required amount for 1981 (Rs.)	
	A.S.H.	M.VV.	A.S.H. Rs.	M.VV. Rs.
1. Colombo	140	210	1,680,000	2,520,000
2. Gampaha	320	480	3,840,000	5,760,000
3. Kalutara	160	240	1,440,000	2,160,000
4. Kandy	400	600	5,200,000	7,800,000
5. Matale	40	60	480,000	720,000
6. Nuwera Eliya	168	252	2,240,000	3,360,000
7. Galle	200	300	2,400,000	3,600,000
8. Matara	160	240	1,920,000	2,880,000
9. Hambantota	92	138	1,200,000	1,800,000
10. Jaffna	304	456	22,928,000	34,392,000
11. Mannar	30	45	360,000	540,000
12. Vavuniya	17	25	201,600	302,400
13. Batticaloa	60	90	720,000	1,080,000
14. Amparai	60	90	1,020,000	1,530,000
15. Trincomalee	60	90	720,000	1,080,000
16. Kurunagala	200	300	2,400,000	3,600,000
17. Puttalam	100	150	1,200,000	1,800,000
18. Anuradhapura	68	102	880,000	1,320,000
19. Polliannaruwa	52	78	624,000	936,000
20. Badulla	100	150	960,000	1,440,000
21. Monaragala	60	90	720,000	1,080,000
22. Ratnapura	185	278	2,120,000	3,180,000
23. Kegalle	200	300	2,400,000	3,600,000
24. Mullaitivu	80	120	960,000	1,440,000
<b>TOTAL</b>	<b>3256</b>	<b>4884</b>	<b>58,613,600</b>	<b>87,920,400</b>

Electoral Housing Program

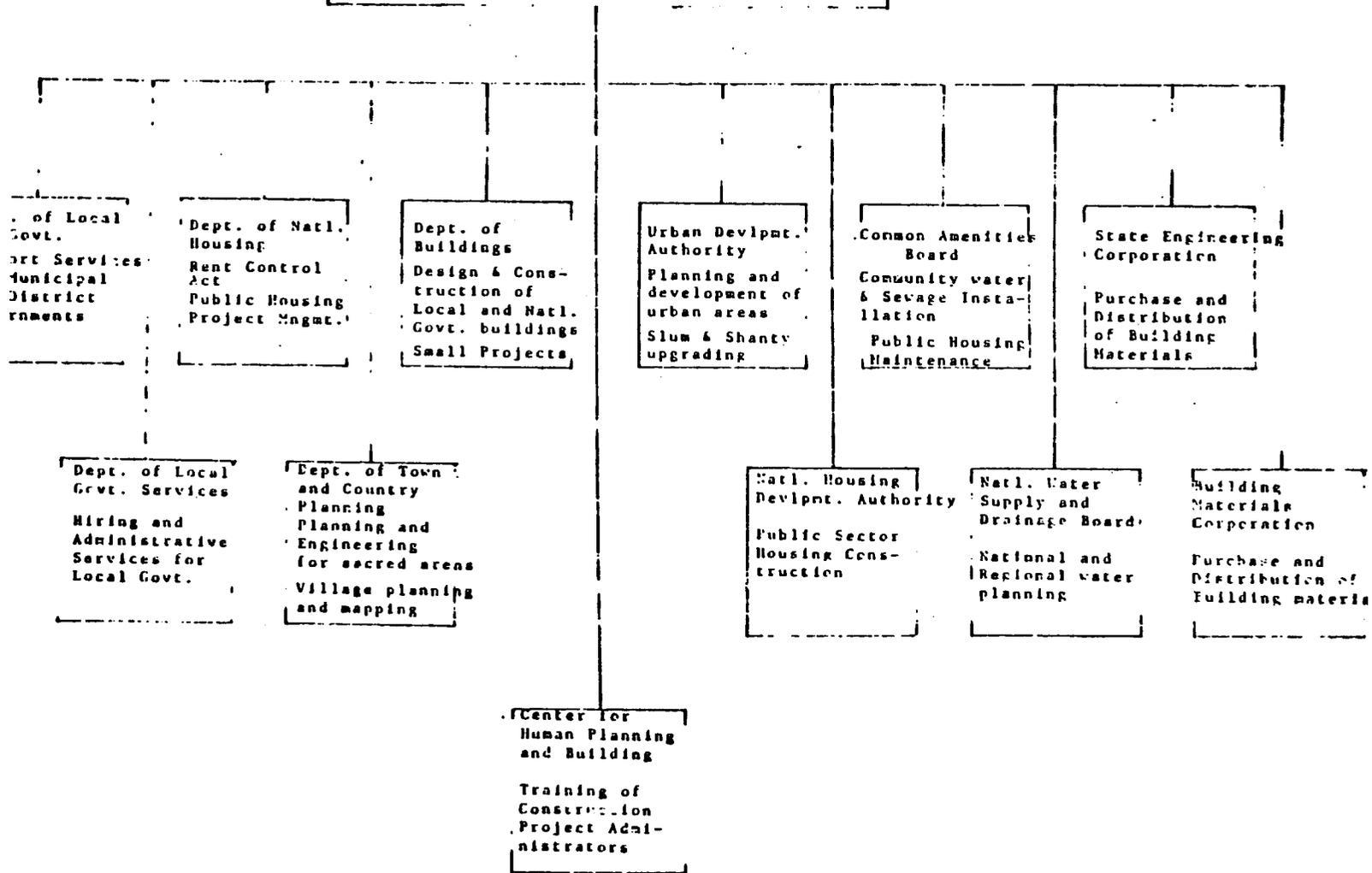
171 Districts - 30 Houses per district  
5130 Units Rs. 144 million

UN GOING TOGETHER MORE

Dist.	no of Units	T. E. C.	Expected Expenditure up to 1980	Financial Year - 1981
Colombo	436	8,339,500.00	4,424,314.00	2,343,100.00
Campbell	823	15,907,500.00	11,414,229.00	7,495,375.00
Kalutara	1117	21,471,900.00	17,876,552.00	8,008,975.00
Hatle	519	8,530,000.00	<del>7,933,361.00</del>	5,825,450.00
Kandy	635	11,122,000.00	10,494,302.00	7,426,525.00
Munera			19,802,500.00	8,010,200.00
Eluga	489	19,954,500.00	16,313,760.00	9,015,600.00
	1231	<del>21,711,000.00</del>	<del>16,313,760.00</del>	<del>9,015,600.00</del>
Galle				
Matara	317	6,282,500.00	5,263,064.00	2,140,250.00
Hambantota	630	11,380,500.00	10,553,134.00	5,750,350.00
			10,454,744.00	5,871,575.00
Galle	711	12,350,000.00		722,775.00
Hambantota	80	12,575,000.00	10,193,23.00	
Varamiya	60	19,250,000.00	1,141,238.00	1,227,250.00
Hulstivaru	-	-	-	-
Trincomalee	287	4,702,500.00	4,702,500.00	1,543,425.00
Batticaloa	1231	20,346,000.00	17,536,390.00	10,990,145.00
Ampara	3427	59,071,200.00	50,286,423.00	31,676,475.00
Puttalam	797	13,215,000.00	11,442,007.00	4,211,850.00
			9,133,191.00	6,347,975.00
Kurunegala	693	11,769,000.00	5,771,214.00	3,420,925.00
Ampara	320	7,134,500.00	9,133,191.00	63,47,975.00
Kilinochchi	698	11,769,000.00		
Kigalle	1440	26,535,500.00	26,332,059.00	11,166,700.00
Yonagala	298	4,515,000.00	3,927,634.00	1,359,300.00
Dehihala	404	7,782,500.00	7,282,500.00	4,225,875.00
Ratnapuram	632	10,320,000.00	6,307,901.00	5,750,400.00

150,907,570

**MINISTRY OF LOCAL GOVERNMENT  
AND HOUSING CONSTRUCTION**



NATIONAL HOUSING FUND REVIEW

TABLE OF CONTENTS

- 1) MLGHC Program Context.
- 2) Fiscal Structure and Current Status.
- 3) Proposed Reorganizations.
- 4) Evaluation of Fund Operations.

NATIONAL HOUSING FUND REVIEW

1. Ministry of Local Government, Housing & Construction  
Program Context

The National Housing Fund (NHF) is one of three major components constituting the MLGHC Housing Program. This framework is specified below with an itemization of the types of loans made by the program components and an indication of the agencies within MLGHC responsible for the administration of each component:

MLGHC Housing Program

- 1) National Housing Fund (Administered by the National Housing Department)
  - New construction (home) loans (to borrowers for new residential unit construction work arranged by the borrower - mostly urban to date since not many rural loan applications have been filed).
  - Land purchase loans.
  - House purchase loans.
  - Repairs and extension loans.
- 2) Aided Self-Help Program (Administered by the National Housing Development Authority)
  - Aided Self-Help program.
  - Model Villages program.
  - Fishermen's program.
  - Electoral program (starting in 1981, moved from Direct Construction component of the Housing Program.)

- 3) Direct Construction Program (Administered by the National Housing Development Authority) -  
 Government designed units constructed by the State Engineering Corp. or government contractors with government funds on government-owned land, offered to tenants when completed originally on a rental basis but recently on a tenant purchase basis.
- Direct Construction.
  - Model Villages (in some cases).
  - Electoral program (transferred to Aided Self-Help starting in 1981)
- Program suspended as of 1981 except for completion of direct construction housing schemes in progress.
- 4) Slum and Shanty Upgrading Program (Administered by the Urban Development Authority)

## 2. Fiscal Structure and Current Status

The Housing Fund is fiscally different from the other Housing Program components. The other Program components receive annual grants from the Treasury as part of the Government's direct allocation of capital expenditures. These funds are then loaned out to individuals at subsidized interest rates starting at 0%. When these loans (or rents) are collected over time, this revenue is not returned to Treasury but used as capital for additional housing loans, thereby supplementing the regular capital allocations.

The NHF, on the other hand, while receiving some grant money, borrows most of its funds from Treasury (as of 1979: 8%, 20 year money). The NHF Housing Fund was initially planned to be a "revolving fund" where additional capital would be generated by: 1) the interest rate spread between the Fund's lending rate and its interest on Treasury borrowings and 2) occasional grants from Treasury.

In order to pay back principal and 8% interest over 20 years, the NHF established fixed 20 year loan schedules to borrowers. In the case of home loans, in 1978 and 1979 for instance (maximum loan: 50,000 rupees), 21,000 - 50,000 rupee loans were 9%, 10,000 - 20,000 rupee loans were 7% and under 10,000 rupee loans were 6%. The 6% loans were directed to "low income" families whose housing loan needs were not expected to exceed 10,000 rupees.

With the intention that the Fund was to become a "revolving fund", most of the money borrowed from Treasury was to be loaned out at the 9% level. This would enable the Fund to collect more than it was obligated to return, thereby generating a capital base for the "revolving fund". As evident in Table 1, this plan never was implemented. Instead, the reverse occurred - the bulk of the money borrowed from Treasury @ 8% was loaned out at 6%, thereby decapitalizing the Fund (providing no capital for any sort of revolving fund).

With the National Housing Department falling far behind on scheduled collections (analyzed in detail below), not receiving a significant amount of Treasury grants and within the negative interest spread obviously not generating the capital for a "revolving fund", the "revolving fund" never became operational - i.e., actual collections could not even cover the Fund's debt obligations to Treasury.

NHF new loan activity is at present in a state of unofficial suspension. It did not receive from Treasury any of the 100 million rupees to finance its proposed 1980 program. By March, 1980, the Rs. 140 million 1979 money which it had received was fully committed. The collections being made on the outstanding portfolio are not being reinvested but used to pay back the Treasury debt obligations which are far behind schedule. The reason given for no 1980 budget is "financial constraints" at Treasury, which are likely to continue into at least 1981. This is why the proposed reorganization of the Fund's administration might be academic at least for the next year.

For an accounting of the geographic distribution of Housing Fund loans made in 1978 and 1980, see Table 1A.

#### Proposed Reorganization

As a result of the unsatisfactory performance of the National Housing Department as NHF administrator, the following change has been proposed, initially planned to be implemented in January, 1981:

- The National Housing Development Authority (NHDA) would assume administrative responsibility (development of new loans, disbursements, credit review, construction inspection, collections) of all NHF loans disbursed starting in January, 1981.
- The National Housing Department would continue to administer the existing NHF portfolio. As explained below, from an accounting perspective, this portfolio is so disorganized and incomplete that the National

Housing Department has been unable to engage a local accounting firm willing to re-assemble the portfolio. NHDA is therefore not willing to assume any administrative responsibility for this portfolio. However, this reorganization has been indefinitely postponed because no new allocation of funds for the NHF is proposed in 1981.

NHDA has done a good job to date in administering the ASH and Direct Construction loans programs. However, NHDA expects the administration of the NHF to be difficult at least initially as a result of the lenient reputation that NHF-based loans have acquired. Although no specific procedures have yet been developed, NHDA expects to administer this program efficiently by focusing its attention on the following areas which were the weakest performance areas of the National Housing Department:

- Strict, well-defined collection and delinquency procedures that will be enforced, including the authority which it has been granted for NHF loans to automatically possess the house of any mortgagor or renter with over 3 months of arrears.
- Adequate staffing, with an office in every district.
- Development and use of a standardized accounting system, with a comprehensive, complete and up to date set of records for each loan.

While the NHDA so far has competently managed the ASH and Direct Construction loans, MLGHC is unsure whether this performance can continue once these programs balloon into many more loans. (the program is just into its third year and expanding) MLGHC suggested that perhaps NHDA, with its forte being housing development, should in the future be relieved of its loan/mortgage servicing responsibilities. In addition, general skepticism was expressed regarding the muscle that is required (and is politically difficult) to induce borrowers out of the long term habit (since the early 1960's) of ignoring NHF debt obligations.

#### 4. Evaluation of Fund Operations

The NHF has been administered by the National Housing Department since its inception in 1954. The primary functions for which the National Housing Department is responsible are the following:

- a) Borrow money from the Treasury (@ 8%, 20 years in 1979).
- b) Solicit loan applications and conduct credit reviews.
- c) Disburse money to borrowers and in the case of installment loans, inspect work completed to date as a condition for the next loan installment.

- d) Make scheduled collections on loans including maintenance of accurate, up-to-date accounts and pursuit of delinquent accounts.
- e) Conduct periodic in-house audits of the Fund's portfolio and operations and coordinate with Auditor General's annual audits.

The overall finding is that the National Housing Department has inadequately managed the Fund portfolio dating back to the early 1960's. The Fund's problems have been seriously compounded to the point of almost being irreparable due to the lengthy period of inadequate management. To gain a clear understanding of what has happened, an analysis of each of the functions listed above is presented below:

- a) Treasury Borrowing: Despite a certain level of loan commitments, the National Housing Department on occasions could not borrow in the amount that it wanted or on the schedule that it expected. In 1980, for instance, the Fund did not receive any of the Rs. 100 million which was applied for, thereby resulting in the Fund's new loan activities being suspended in March, 1980, when its Rs. 140 million of 1979 money was fully committed.
- b) Credit Review: The credit review procedures are well defined: each applicant's capacity to repay the loan is determined on the basis of data regarding income over the past few years, other loans outstanding, and record of employment. The monthly installment of the loan cannot exceed 25% of monthly income and, combined with installments on other loans outstanding, cannot exceed 40% of monthly income. A judgment is made regarding whether or not the applicant's employment record is stable enough to qualify for a loan. In addition, the applicant must provide documentation showing that he has clear title for the land/property for which a loan is to be made. This credit review process has frequently been bypassed particularly in repair and extension loan applications and a loan automatically made on the recommendations of a Member of Parliament. These "political" type loans are known to have among the most critical arrearage track records.
- c) Disbursement/Inspections: Disbursements to borrowers have been efficient. Inspections of work completed that are required for the borrower to receive the next loan installment have been efficient except for a certain volume of stated but unproven borrower to inspector bribery. No regular inspection is done of the minor (4,000 rupee) repair and extension work financed by

NHF loans. Spot checks have revealed that in a large number of cases, the work for which a loan was to be used was never actually done.

- d) Collections: The collection procedures are well-defined. Mortgage payments and rents are due at the beginning of every month. Once a mortgage or rent is three months in arrears, a notice or reminder is supposed to be mailed. Once a mortgage or rent is 12 months in arrears, the Housing Commissioner (head of the National Housing Department) has the authority to take legal action (foreclosure and/or prosecution).

This process has not been followed by the National Housing Department, primarily as a result of political pressure. Frequently, when a delinquent account was pursued, a Member of Parliament would repeatedly intervene and request that the delinquent party be given more time on account of "financial difficulties." With such political interventions becoming commonplace, the National Housing Department staff administering the Fund's portfolio has become indifferent about their collection responsibilities. This problem has been compounded by the public perception that, in actuality, National Housing Fund loans either do not have to be paid on schedule or at all. These trends are further compounded by the attrition of the National Housing Fund staff; detailed tabulation of the current staffing is presented in Table 2.

- e) Audit/Accounting. The internal audit function is not being performed. The portfolio accounting system is in disarray as a result of the following conditions:
- Many loan files are missing.
  - Most loan files are not current or physically not located in a file in which they can be quickly found.
  - No standardized record keeping system was ever implemented to track contingent liability, collections and disbursements. With little accounting staff supervision, they are not being posted with any technical or format consistency.

TABLE 1

NATIONAL HOUSING FUND LOANS  
1978 - 1980

Year		No. of Loans	Value (Rs.)
1978	6%	2231	34,544,550
	7%	617	8,695,800
	9%	1136	29,723,800
<b>TOTAL:</b>		9984	72,964,150
1979	6%	15191	73,438,800
	7%	704	10,349,200
	9%	1979	56,490,100
<b>TOTAL:</b>		17,874	140,278,100
1980	6%	2352	17,381,800
	7%	67	974,500
	9%	282	8,779,500
<b>TOTAL:</b>		2,701	27,135,800

TABLE 1A

DISTRIBUTION OF NATIONAL HOUSING  
FUND LOANS: 1978, 1980

Year	Regional Office	Units	Rupees (Millions)
1978	Colombo	3894	29.3
	Kandy	995	8.9
	Kalutara	730	4.4
	Galle	1516	7.9
	Jaffna	1429	15.3
	Anuradhapura	1128	5.7
	Kalmunai	294	1.3
		<hr/> 9986	<hr/> 72.8
1980	Colombo	358	.9
	Kandy	157	.1
	Kalutara	208	1.7
	Galle	478	3.8
	Jaffna	150	2.4
	Anuradhapura	133	2.2
	Batticaloa	109	6.6
	Kalmunai	92	7.5
	Gampaha	937	8.6
	Kurunegala	83	8.2

TABLE 2

NATIONAL HOUSING DEPARTMENT  
STAFF ASSIGNED TO ADMINISTRATION OF THE  
NATIONAL HOUSING FUND ( 1980)

1 Assistant Commissioner in Charge  
122 General Clerks ( Full time)  
31 General clerks ( part time)  
1 Legal Assistant  
2 Administrative Assistants ( part time)  
8 Valuations Officers ( part time)  
1 Collector  
8 Accounting Clerks  
13 Overseers  
97 General Seaff, full time ( Typists, guards, office peons,  
stenographers, receptionists, drivers , etc.)

---

285 Employees distributed in 10 regional offices. Many of these offices are responsible for administering that component of the Fund's portfolio covering up to 7 Administrative Districts.

Note: Loan/Rent payments most commonly made in person by Borrower. Option available (rarely used): rent or loan amount deducted from Borrower's paycheck by employer.

ANALYSIS OF NHDA REGIONAL OFFICE

Aided Self-help Housing Work

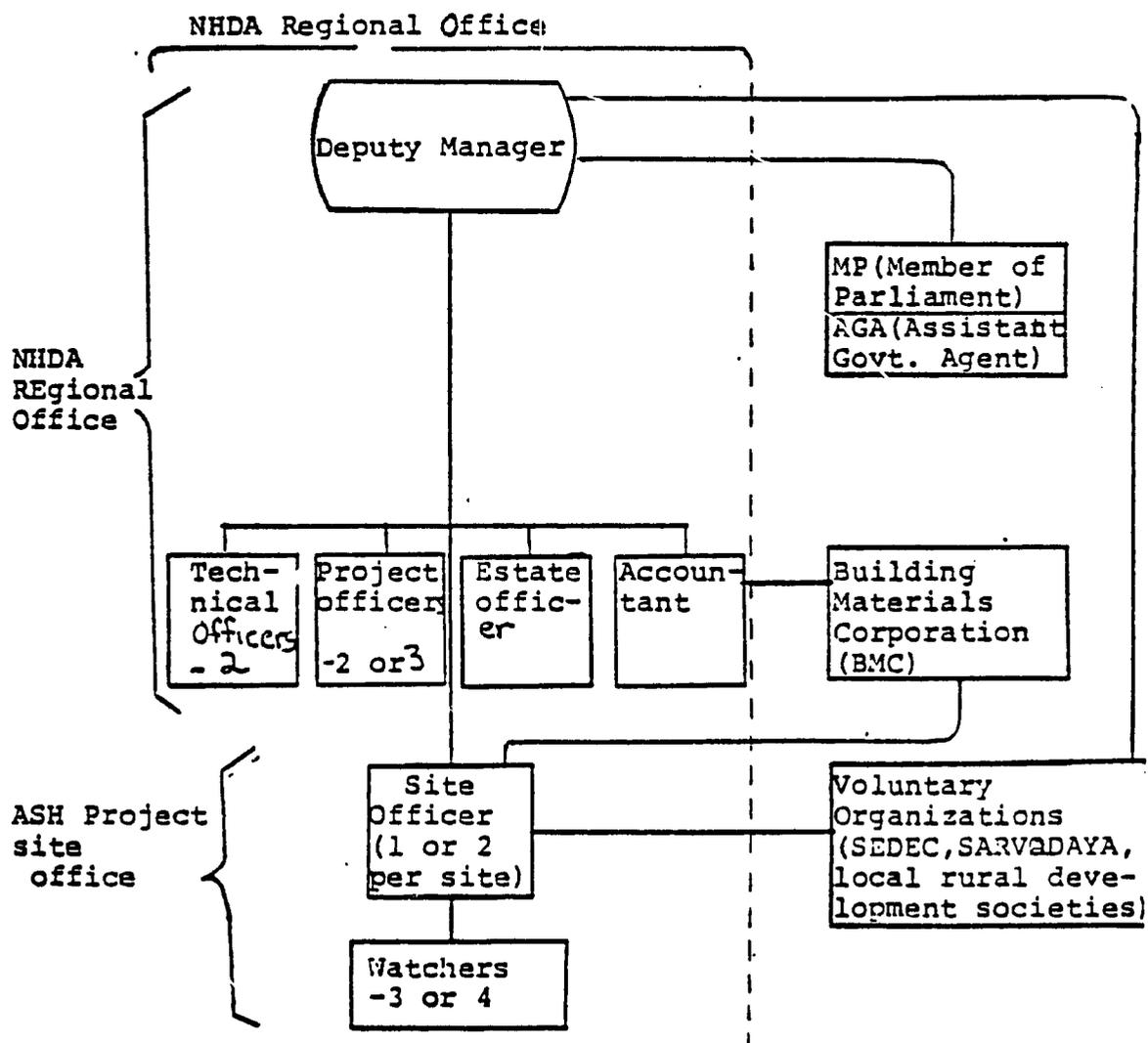
Table of Contents

- I. ASH Organization of NHDA Regional Office.
- II. ASH Housing Design and Construction Process.

## I. ASH Organization of NHDA Regional Office

The ASH Program is implemented by the 24 regional NHDA offices. The NHDA regional office, in collaboration with several non-NHDA parties, is organized in the following manner as far as administering the ASH program is concerned:

### Regional Organization of the ASH Program



The following is a summary of the responsibilities of the regional NHDA officers who are involved in ASH projects:

- Deputy Manager: Responsible for overall ASH project administration, the DM makes final decisions regarding ASH project plan, including schedule, building materials to be ordered and beneficiaries. In collaboration with the MP and AGA, the preliminary ASH project is defined - housing unit design selection, infrastructure, site, beneficiaries, model villages (MV) facilities, if any. He then focuses on project implementation within his office and interfacing with other government agencies through the regional AGA regarding non-ASH funded facilities to be incorporated into the ASH scheme. He also orchestrates the involvement of voluntary organizations in the construction of housing units, when beneficiaries cannot adequately provide labor input requirements.
  
- Technical Officers supervise the site officers, keeping the Deputy Manager up-to-date on project status and problems, if any. They also make weekly inspections of the ASH site and, during these site visits, are responsible for resolving all technical problems of the site officers.
  
- Project Officers serve as the Deputy Manager's administrative assistants. They concentrate on construction logistics and scheduling, attending building society meetings, attending to land and building problems of an administrative or management nature and integrating voluntary organizations MV inputs into the ASH project. They also conduct site visits with the Deputy Manager once every two weeks.
  
- Accountant is responsible for all financial matters: budget; loan servicing; bank account operations; budget preparation and project cost control monitoring; building materials inventory; financial reporting.
  
- Estate Officer, once the housing units have been completed, is responsible for getting the tenancy agreements signed (see Attachment for prototype Tenancy Agreement) giving several informal seminars regarding proper maintenance of the housing units as well as the community areas; and making monthly visits to the ASH site to make loan collections, subsequently transferring these collections to the Accountant for deposit/recording.

- Site Officers, in charge of the ASH project site office, are the technical advisors to the beneficiaries constructing the housing units or whomever is constructing the housing units, whether it be voluntary organizations or individuals contracted out by the beneficiaries. They make sure that each housing unit's design and construction work is being performed to specification, including proper amount, composition, mixture, and application of building materials. They also notify the Deputy Manager of all upcoming building material needs, based on the construction progress of the beneficiaries. They also direct their staff of watchers to monitor and distribute the appropriate increments of building materials. Also within their responsibilities is maintenance of the construction progress of all housing units at approximately the same level. This responsibility involves constant "motivation" meetings with the building society and individual beneficiaries to the point of providing food or money to individuals for work that they will miss because of their ASH construction obligation in order to stay close to the set construction schedule. They also interface/ coordinate with designated government agencies responsible for non-ASH funded construction work (ie., MV) site.
- Watchers receive building materials from the BMC and guard the building materials inventory, distributing them to the beneficiaries on instructions from the Site Officer. Watchers allocate building materials incrementally pending completion and approval of work completed for the preceding construction phase.

#### I. ASH Housing Design and Construction Process

Every specific workstep involved in an ASH scheme is chronologically identified below:

##### Phase I - Pre-Construction

1. Identifying land (request/proposal).
2. Approval.
3. Investigating feasibility.
4. Approval/rejection of scheme.
5. Fixing tentative target dates for starting and completion.
6. Informing of approval/rejection.
7. Take over/acquisition of land.
8. Survey.
9. Advance notice to B.M.C.
10. Preparing Layout Plan.
11. Selection of house-builders.
12. Deciding on Type Plan.
13. Handing material list to B.M.C.

14. Paying advance to B.M.C.
15. Distributing application forms to selectees.
16. Appointing S. Overseer.
17. Appointing watchers.
18. S.O.'s specimen signature to B.M.C
19. Receive Affidavit/Application form
20. Collect Deposit.
21. Forming housing society and motivating builders.
22. Fixing firm targets for starting/completing.
23. Progress reporting to Head Office.
24. Making temporary store.
25. Pegging out lots.
26. Handing over Lots to Builders.

#### Phase II - Construction Phase.

27. Starting work on community wells/internal roads.
28. Starting work on houses.
29. Controlling material supply and continuous dialogue with B.M.C
30. Support of District Minister / M.P.
31. Support of G.A./A.G.A.
32. Dialogue with house-builders.
33. Motivating the stragglers.
34. Filling vacancies, if any.
35. Solving on site problems.
36. Regular field inspections.
37. Progress reporting - from site to D.M.
38. Progress reporting - from D.M. to H. Office.
39. Feedback from H. Office.
40. Fixing date for opening (when 95 % of work is over).
41. Interim Payments to B.M.C.
42. Plaque wording to H. Office.
43. Completing all work (e.g. latrines).
44. Handing over houses.
45. Signing agreements.
46. Ordering plaque.
47. Despatching plaque to D.M.
48. Organizing opening ceremony.
49. Landscaping, site clearing, erecting plaque.
50. Opening ceremony.

#### Phase III - Post-Construction.

51. Fixing boundary stones.
52. Closing books regarding stores.
53. Auctioning empties.
54. Collection of first rents.
55. Completing householders' ledger.
56. Final payments to B.M.C.
57. Payment of compensation.
58. Closing of site report to H. Office.

A more analytical form of the main steps in the ASH project implementation process is presented below:

### ASH Project Implementation Process

Note: The ASH Program has been decentralized in the past year, meaning that the NHDA's central office will not be involved in the planning and implementation of individual ASH projects. The NHDA central office functions have therefore been limited to the following program-wide functions.

- Policy, finance and budget, overall planning, progress control, overall technical supervision, overall design, payments to B.M.C., training at central level, staff and appointments, research, publicity formulation of systems, all aspects of foreign aid and overall supervision.
- Regarding individual ASH schemes, the Central Office only participates in land acquisition, takes over land from State agencies, orders and supplies the plaque, pays staff and pays for material supply.

NHDA Deputy Manager receives an ASH project proposal: beneficiaries, land (AGA involved if land acquisition involved), MV community facilities, if any.

2a  
Beneficiary list screened and finalized. Beneficiaries sign affidavit stating the qualifying data provided is correct. Otherwise, beneficiaries play no role in housing unit design of plan.

2b  
NHDA regional office. determines prototype house plan to be employed based on climate, cost, site conditions, perceived tastes of beneficiaries-prototype plans developed to accommodate varying climatic, ethnic and environmental conditions. Units of project funded by ASH must be physically identical. Beneficiaries, with own resources, permitted to make modifications upon completion of construction of ASH project.

3  
Site officers allot land parcels to beneficiaries. Land parcel allotment done on a lottery basis. Site officers then stake out each housing unit parcel.

4  
Work begins with first BMC delivery of materials and subsequent allotment of materials to beneficiaries. BMC, with Deputy Manager's makes deliveries to the ASH project site incrementally throughout the construction period of the project.

4a  
Beneficiaries provided building materials/construction advise by Site Officer. Site officer regularly conducts "motivation" meetings with beneficiaries through the building society - resolution of problems, with emphasis on staying on schedule.

4b  
Volunteer organizations, under direction of Deputy Manager/ Site Officer, used to assist beneficiaries having the greatest difficulty in providing labor inputs on schedule. In most difficult cases, food or money provided by site officer as incentive for completing constructions work on schedule.

5a  
Upon termination of most of units and MV community facilities (if any), ASH project office on site closed. Tenancy agreements signed and beneficiaries officially move into houses (although they frequently set up on-site squatter type quarters while construction work in progress). Frequently MP inaugurates ASH project site.

5b  
Building Society becomes defunct with Building Society office bearers frequently assuming directorships of ASH community facilities and development organization or, if no such organization formed, principal Building Society office bearers incorporated into ASH village council and community development organization in

village in which ASH project located or in adjacent village. Such organization responsible for maintenance of community areas and infrastructure (wells, roads, lights) and cultural/social activity planning-management.

This Agreement made on this..... day of.....  
 One Thousand Nine Hundred and..... in the Island of  
 Sri Lanka between the Chairman/General Manager of the National  
 Housing Development Authority (Hereinafter referred to as the  
 'Landlord' for itself and its successors in the said office for  
 the time being acting for and on behalf of the Democratic Socia-  
 list Republic of Sri Lanka of the One Part and Mr/Mrs.....  
 .....  
 of.....  
 .....  
 (hereinafter referred to as the 'tenant') of the other part.....

WHEREAS Mr./Mrs.....  
 of applied to the National Housing Development Authority for a  
 house from the.....  
 Housing Scheme on rent purchase terms and has been selected as a  
 tenant of the house No.....  
 .....  
 of.....  
 ..... Housing Scheme.

AND WHEREAS the said tenant has made a deposit of Rs.....  
 .....  
 with the landlord which will be set off against the first instalment  
 of rent payable to the landlord as specified below:-

AND WHEREAS the landlord has agreed to grant to the tenant the  
 tenancy of house No.....  
 of.....  
 ..... Housing Schem as from the  
 ..... day of.....19.....on rent purchase  
 terms, on the following terms and conditions set out hereunder.

WITNESSETH THAT:-.....  
 .....

2:1 The landlord hereby lets to the tenant and the tenant agrees  
 to accept on rent from the landlord house No.....  
 .....OF.....  
 Housing Scheme, on a monthly rental of Rs:.....ON  
 rent purchase terms at a monthly rent of Rs:.....  
 ..... commencing from the.....

deposited by the tenant will be set off against the first instalment of rent payable by the tenant to the landlord. 107.

- 2:3 The tenant will pay to the landlord the monthly rent due for each month on or before the.....day of that month.
- 2:4 The tenant shall use the premises only for his residential purpose and shall not use or permit the premises to be used for any illegal or immoral purpose.
- 2:5 The tenant shall keep and maintain the premises in a clean, sanitary and tenantable condition and shall be responsible for any action or prosecution arising from any insanitary condition of the said premises and not in any way contravene or violate any law or by-law that may be in force from time to time. The tenant shall also maintain any out-house or other building that may hereafter be rented to him/her in clean and sanitary condition at all times until the termination of the said tenancy.

The landlord hereby reserves the right to terminate the tenancy at any time on his being satisfied that the tenant is not keeping the premises in a good state of repair and in a sanitary and tenantable condition.

- 2:7 The tenant shall not let or sub-let the house or any part thereof to any person whomsoever nor shall he/she take in any lodgers or accomodate any persons other than those mentioned in his/her application to the Chairman for a house, except, the spouse or children of the applicant or other dependants who in the landlord's discretion may be considered members of his/her family provided that the landlord may permit accommo- dation by the tenant of any other persons who may become dependant on him/her hereafter.
- 2:8 The tenant shall maintain in good order the doors windows and walls of the said premises, and shall not drive in any nails or paste any paper or in any manner cause any damage to the said property.
- 2:9 The tenant shall not without obtaining the prior permission of the landlord effect any partitions, alterations, structural or otherwise to the said house by using any wood or other material. In the event of the tenant effecting any such unauthorised extensions or structural alterations, the landlord shall without any notice or compensation to the

- 2:10 The tenant shall keep the demised premises in good and tenantable order in accordance with these presents all the interior of the house, doors, main doors, wooden items, fixtures and fittings in good repair, in order to maintain the original condition.
- 2:11 The tenant shall permit the landlord and or his agents and other persons authorised in writing by the said landlord at all reasonable time during the day to enter upon the demised premises or any part thereof to view or inspect the said premises.
- 2:12 The tenant shall keep and maintain the premises in good and tenantable condition and carry out all repairs on the waste water pipes, and shall keep clean all drains and gutters belonging to the said premises.
- 2:12A The tenant shall during the period of tenancy carry out all repairs to the house and the lavatory at his own expense.
- 2:13 The tenant shall provide and maintain a suitable covered container to collect all garbage until it is duly removed by the local authority.
- 2:14 The tenant shall not erect any building or structure, or enclose any part of the demised premises without the prior consent of the landlord. In the event of the tenant acting in breach of this condition, the landlord doth have the right to terminate the said tenancy.
- 2:15 The tenant shall keep and maintain in good order all roads common to the said demised premises by means of "Shramadana" once or twice a year failure on the part of the tenant to abide by this condition will result in the termination of the said tenancy by the landlord.
- 2:16 The tenant shall maintain and keep in good order the common wells and the community centre by means of Shramadana carried out by and together with the tenants of the neighbouring demised premises failure to maintain the community centre and the wells will result in the termination of the said tenancy by the landlord.
- 2:17 The landlord or the tenant shall terminate the tenancy of the said premises by giving either party one full calendar

2:18 Failure on the part of the tenant to pay the monthly instalment of rent will permit the landlord to give notice to the tenant in order to terminate the contract of tenancy, in which event the landlord shall select a suitable new tenant to occupy the said premises, with the concurrence of the Government Agent of the District, who is also the representative of the Land Commissioner.

2:19 In the event of the tenant failing to observe any of the aforesaid conditions the landlord reserves the right to terminate the said contract of tenancy. The termination of the tenancy by the landlord for failure to observe any of the above conditions will result in the tenant losing all rights and privileges accruing to him by the said contract of tenancy. The tenant doth undertake to vacate and handover peaceful possession of the demised premises at the termination of the said tenancy.

Until such time a permanent agreement is entered into this agreement shall prevail.

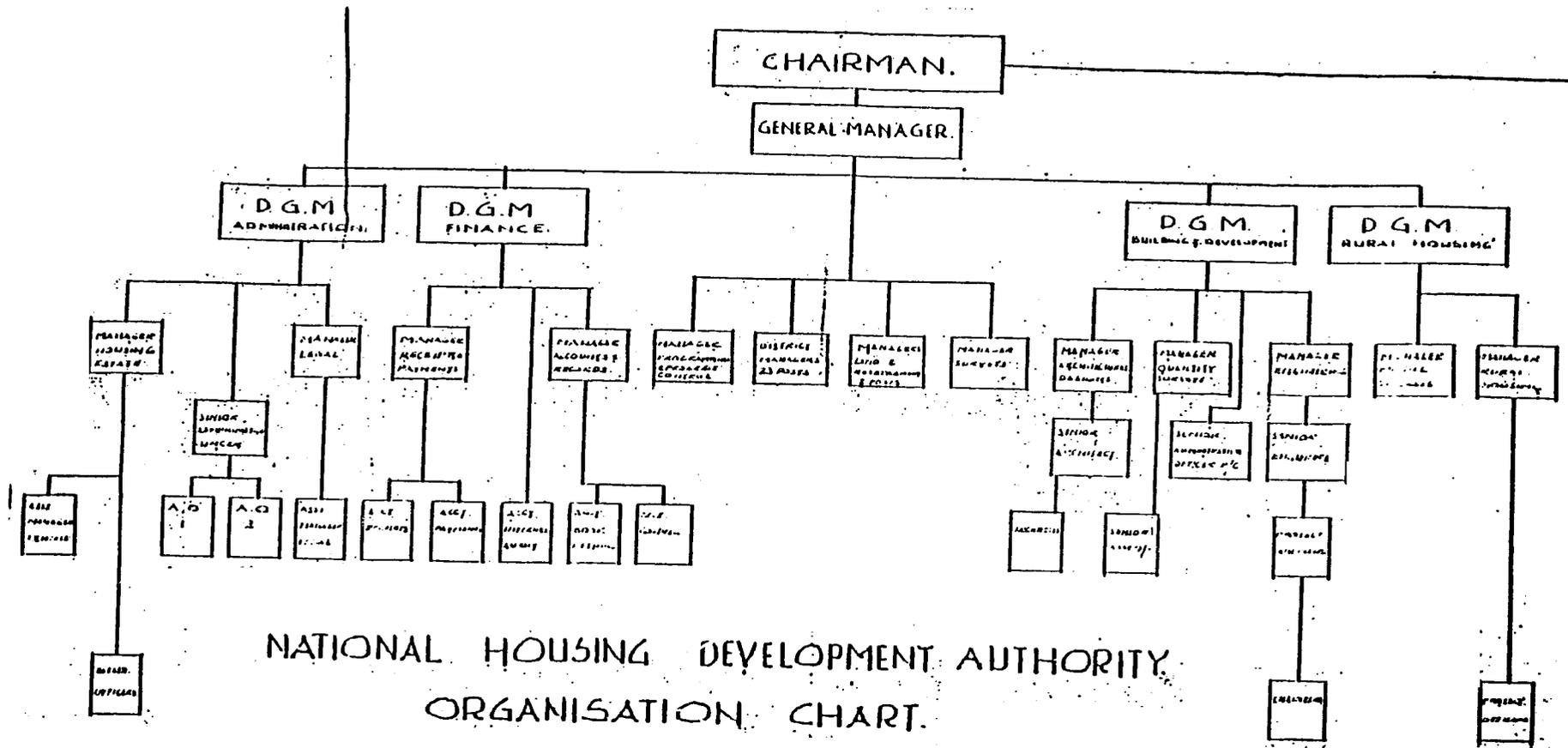
0 The decision of the landlord as to whether the tenant has committed a breach of any condition aforesaid, shall be final.

for Chairman/General Manager  
of the National Housing Development Authority

Signature of tenant

(To be signed on a Rs.1/= stamp)

Witnesses: (



	(Rs Millions)	
	<u>1980</u>	<u>1980-84</u>
Funds voted by Parliament for Specific Projects	438	752
Foreign Aid	-	8
Funds from Local Authorities	6	90
UDA Capital	80	-
Revenue from UDA Projects	40	1,403
Sale of Debentures	420	920
Annual Cash Surplus	<u>46</u>	<u>625</u>
Totals	1,031	3,198

If UDA is to follow its plan for project development the next four years, it must raise capital through the sale of debentures. Without that capital, projects will be delayed, creating a shortfall in expected lease revenues thus compounding slippage against the plan.

In September, 1980, UDA issued its first Rs 100 million in debentures for sale. As of October, 1980 none of the debentures had been purchased. The National Savings Bank who with the Employees Provident Fund are virtually the only investors in Government debt or debentures did not plan to purchase UDA debentures in October or November. Members of the Central Bank informally expressed skepticism about the UDA's ability to raise the Rs 420 million needed in 1980. Unless the debentures are sold, UDA's goals for 1980-81 may have to be reduced to a level more compatible with the capital available or funds may have to be shifted from other Government projects.

## SLUM AND SHANTY DIVISION, UDA

Projections of Activities

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
Units	5,000	7,500	12,500	20,000
Families	6,500	9,750	16,250	26,000
Cost/Unit	10,000 Rs.	12,000 Rs.	14,400 Rs.	17,280 Rs
Investment	50 M Rs.	90 M Rs.	180 M Rs.	345.6 M Rs

## Assumptions:

Costs per unit increase 20% each year.

Average of 1.3 families per unit.

Represents a total of 45,000 units upgraded over 4 years or 45% of the estimated 100,000 slum and shanty units in Sri Lanka.

Total investment = 665.6 Million Rs. or approximately 37 Million \$.

SLUM AND SHANTY DIVISION  
Proposed Standards for Upgrading Program

Public Toilets:	Maximum 100 yards from any residential unit. 1 Toilet per 5 units Maximum 20 toilets per block														
Storm	Evacuation of storm water on main public streets as a minimum														
Garbage Collection:	Maximum 50 yards from housing units. Placed along vehicular access ways														
Water Supply:	Maximum 50 yards from housing units Maximum 10 units per tap. Where possible design for future individual connections.														
Bathing Facilities:	Maximum 100 yards from housing units. Maximum 10 units per bathing place														
Electricity:	Public Street lights - Maximum 50 yards apart or minimum 2 posts per acre. Where possible design for future individual connections.														
Access:	Maximum district 100 yards from housing unit to vehicular road of 2 lanes (minimum width 30', 22' paved) to emergency vehicular road (minimum 1 lane, 15' width with 11' paved). Each housing unit accessible by footpath (minimum 5' wide).														
Density:	<table border="0" style="width: 100%;"> <tr> <td style="width: 50%;">Average Plot: 525 ft.</td> <td></td> </tr> <tr> <td>Minimum Plot: 375 ft.</td> <td style="text-align: right;">existing</td> </tr> <tr> <td>Average Unit: 350 ft.</td> <td></td> </tr> <tr> <td>Minimum Unit: 250 ft.</td> <td></td> </tr> <tr> <td colspan="2"> </td> </tr> <tr> <td>Average Plot: 550 ft.</td> <td style="text-align: right;">Proposed for</td> </tr> <tr> <td>Minimum Plot: 410 ft.</td> <td style="text-align: right;">upgrading</td> </tr> </table>	Average Plot: 525 ft.		Minimum Plot: 375 ft.	existing	Average Unit: 350 ft.		Minimum Unit: 250 ft.				Average Plot: 550 ft.	Proposed for	Minimum Plot: 410 ft.	upgrading
Average Plot: 525 ft.															
Minimum Plot: 375 ft.	existing														
Average Unit: 350 ft.															
Minimum Unit: 250 ft.															
Average Plot: 550 ft.	Proposed for														
Minimum Plot: 410 ft.	upgrading														

50 plots/acre gross residential density (Includes residential plots, roads, footpaths, public toilets, bathing areas, and open spaces. Excludes schools, dispensaries, community centers, etc.)

**PRE-IMPLEMENTATION**

1. Concept plan & rough TEC: project proposal/brief
2. Project proposal to be submitted to Co-ordinating Committee
3. Project brief to be submitted to Director of Finance, UDA.
4. Allocation of funds in UDA budget
5. Decide about executing agency: UDA or CAB
6. Inform Director Engineering Services (A) or Chairman CAB(B) of 4.
  - A. Inter-office memo (Finance → Eng.Serv.)
  - B. Letter (General Manager UDA → CAB )

**ROLE S & S PRE-IMPLEMENTATION**

Prepare 1  
See to 2 - 6

**DETAILED PLAN, CONSTRUCTION DRAWINGS, BOQ'S, FINAL TEC, BARGHART ETC. PREPARED BY OR THROUGH S&S**

\* If final TEC differs from rough TEC: correct project brief and submit to Director of Finance.

**A. EXECUTING AGENCY UDA**

**(A<sub>1</sub>) Awarded Contract**

1. Letter of Intent (E.S.-- con)
2. Start work (con)
3. Insurance & Bankguarantee (con)
4. Advance payment (Fin -- con)
5. Negotiation rates (T.C. --con)\*
6. Approval rates (T.C. -- con.)
7. Contract document (E.S.)
8. Signing of contract (E.S.-- con)
9. Checking bills con. (S & S)
10. Approval bills con. (S.S.)
11. Payment bills con. (Fin.)

\* If contractor submits bill for extra work, rates for new items must be approved by T.C.

**(A<sub>2</sub>) Tendering Procedure**

PROCEDURE HANDLED BY E.S.

**ROLE S&S A<sub>1</sub> & A<sub>2</sub>**

- CONSULTANCY
- SUPERVISION
- ADAPTING PLANS
- CO-ORDINATION (con, E.S., T.C, Fin.)
- CHECKING PROGRESS
- 'TROUBLE SHOOTING'
- SITE OFFICE
- FIELD CONTACTS:
- CONTRACTOR & INHABITANTS

**B. EXECUTING AGENCY CAB**

**(B<sub>1</sub>) Awarded Contract**

- \* Letter from Gen. Manager/UDA To Chairman CAB with request for awarded contract procedure. PROCEDURE HANDLED BY CAB

**(B<sub>2</sub>) TENDERING PROCEDURE**

PROCEDURE HANDLED BY CAB

**ROLE S&S B<sub>1</sub> & B<sub>2</sub>**

- CONSULTANCY
- ADAPTING PLANS
- CHECKING PROGRESS
- 'TROUBLE SHOOTING'
- FIELD CONTACTS:
- CAB &
- INHABITANTS

## NATIONAL HOUSING DEVELOPMENT AUTHORITY

## INVESTMENT PROGRAM - 1981

Projects	Estimated Total Cost (million rupees)
1. <u>Housing Construction</u>	
1. Aided-Self-Help Housing	293.100
2. Urban Housing	890.800
3. Public Servants' Quarters	50.000
4. Electoral Housing Projects	144.000
5. Land & Contingencies	48.388
SUB TOTAL	1,426.288
2. Housing Loans Repayment	45.000
3. Capital Expenditure	17.000
TOTAL INVESTMENTS	1,488.288

FINANCED AS FOLLOWS

1. Treasury Grant	1,000.000
2. Treasury Loan (5%, 15 years to repay)	45.000
3. Internal Generation (Direct sale of houses and land, downpayments on houses, repayments of loans)	443.288
TOTAL	1,488.288

## ENVIRONMENTAL THRESHOLD RECOMMENDATION

Project Location: Sri Lanka 383-HG-001

Project Title: Low Income Housing

Funding:	FY 1981-85 HG:	US \$100.0 million
	AID appropriated	1.135
	GSL	276.0
	<u>Total:</u>	<u>US \$377.135 million</u>

Date Prepared: October 1980

## ENVIRONMENTAL ACTION RECOMMENDED:

Based upon the findings of the IEE, a Negative Threshold Determination is recommended for Sri Lanka 383-HG-001.

Office of Housing:

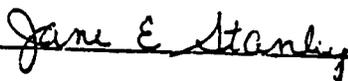


David McVoy

Date:

12-30

Asia Bureau:



Date:

11/3/80

## INITIAL ENVIRONMENTAL EXAMINATION

### I. BACKGROUND INFORMATION

#### A. ENVIRONMENTAL SETTING

##### 1. Natural Environment

Sri Lanka is a tropical Asian island situated just south-east of the tip of India. Its fundamental environmental setting is derived from its location just north of the Equator, its almost complete encirclement by the Indian Ocean, and its varied topography.

The geographic setting gives rise to bi-annual monsoon winds which usually carry significant amounts of moisture. The monsoons come from the southwest starting in May and from the northeast starting in October or November. Each monsoon season lasts at least four months. Precipitation amounts at urban locations range from 1,000 millimeters (40 inches) at Mannar to over 5,500 mm (225 inches) at Ginigathena on the southwest slope of the Highlands. There are two distinct precipitation zones on the island, the Wet Zone in the southwest and the Dry Zone in the rest of the country. Figure 1 demonstrates the distribution of the major precipitation zones and the key urban areas of the country. The boundary between the two precipitation zones is not absolute, hence the transitional zone is sometimes referred to as the Intermediate Zone.

There are two distinct physiographic regions to the country, the Highlands in the south-central part, and the Lowlands to the north and in all the coastal regions. The highest elevation is 2,600 meters (8,292 feet). The average elevation of the Lowlands is less than 150 m. (500 feet). The main rivers of the country originate exclusively in the



Highlands and radiate out in all directions to discharge into the ocean. The longest river is the Mahaweli, with a total distance of about 320 km. (200 miles).

The country is predominantly underlain by stable granite-gneiss rocks, including the Highlands and the scattered inselbergs of the Lowlands. There is no volcanic or earthquake activity. The Jaffna peninsula in the north is the sole exception to the granite-gneiss nature of Sri Lanka, as it is underlain by limestone of the Karst type, which means that it is highly soluble, cavernous and susceptible to sub-surface dissolving with surface slumping into deep holes.

The original vegetation of Sri Lanka was predominantly tropical evergreen forests, both dry and wet types, according to precipitation patterns. In 1960, approximately 40% of the island was forested, dropping to an estimated 25% forest cover in 1980. This rapid deforestation, both for wood products (lumber, firewood) and for agricultural development, has resulted in significant environmental degradation, both by soil erosion with sedimentation downstream and by increased stormwater runoff.

Cyclonic storms, flooding and drought characterize the natural hazards to which the country may be exposed. Cyclones usually strike the eastern, less-populated part of the country. Cyclones recur on the average every fifteen years. Flooding from cyclonic storms and/or from monsoonal precipitation may occur in most any part of Sri Lanka. The rivers have rapid gradient dropoffs as they leave the Highlands, and they meander with large floodplains in the coastal areas. Drought or semi-drought conditions are prevalent in the northwest and southeast portions

of the country, where the Dry Zone grades into a sub-region referred to as the Arid Zone, with annual precipitation less than 1,000 mm (40 inches). This precipitation occurs seasonally, so that inter-monsoonal months are characterized by high insolation and high evaporation rates.

## 2. Human Environment

Major ancient civilization developed in Sri Lanka starting more than 2,000 years ago. The country has a rich and complex ethnographic mix resulting from successive immigrations from India, the Middle East and Europe.

Sri Lanka has been populated almost entirely from India. The Singhalese arrived from North India starting more than 2,000 years ago. They now live in all parts of the country and are approximately 70% of the total population. They are Buddhists. Within the last thousand years, the Tamils immigrated from South India into the northern and eastern parts of Sri Lanka. More recently, other Tamils arrived in the nineteenth century to work on tea estates in the Central Highlands. They are Hindu. Arabic traders and European merchants and settlers (Portuguese, Dutch and British in successive waves) added small but important segments to the population. They also brought Islam and Christianity.

By far the densest population distribution occurs in the southwest, the Wet Zone part of the country. The capital of Colombo and its metropolitan region totalled over 900,000 inhabitants in 1971. The Wet Zone cities of Kandy, Galle and Negombo added 220,000 more inhabitants.

There are only three significant Dry Zone cities: Jaffna with 108,000 people in 1971, making it the largest urban population outside of metropolitan Colombo; Trincomalee (42,000) and Batticaloa (37,000), both on the east coast. See Figure 1 for the location of these urban areas.

In the 1971 Housing Census, less than 20% of the dwelling units were in the urban sector, 71% in the rural, and 11% in the estate sector. Within the urban sector, single detached units were over two-thirds of the composition. Multi-storied apartments composed just 5% of the stock.

Potable water supply in the national context is derived predominantly from wells (over two-thirds in 1971). Piped water to the house was available to just 20% of the national total. The remaining 10% of the households captured water from surface sources, rivers and streams. In the urban context, piped water was available to 45% of the total units. Well water usage accounted for 51% of urban households. In the intervening years since the 1971 Census, World Bank and AID projects have started to attack the potable water needs. The World Bank is embarked upon Project No. 2, of \$94 million, for both potable water and sewerage for the southwest urban population, stretching from Negombo to Galle. USAID has a \$5 million water supply program for the Jaffna peninsula.

In terms of sewerage systems, as indicated above, there is a large program being implemented for upgrading the existing Colombo sewerage system, adding pumping stations and capacity, and adding two long sea outfalls while phasing out existing short outfalls into the

ocean and the Kelani River, Colombo. Other cities in the Wet Zone are getting sewerage systems installed. In cases where tie-ins to municipal sewerage systems are not available, septic tanks or public latrines (to be connected eventually to sewers) are recommended. The National Water Supply and Drainage Board of the MLGHC is the responsible agency for planning the municipal programs. Municipal Councils are empowered to build and maintain the systems. UDA has the overall urban planning functions, with technical assistance from the Board.

Electricity is provided by the Ceylon Electricity Board, within the Ministry of Power and Telecommunications. The major energy source is derived from hydroelectric installations located in the Highland region.

## B. Proposed HG Program

### 1. Characterization

The proposed Housing Guaranty (HG) program will assist the GSL in its efforts to shift its total housing programs toward aided self-help and slum and shanty upgrading. In particular the HG will provide financing for:

#### a. Aided Self-help (ASH)

This program will provide loans to finance building materials, both for the basic house and for walls, pit latrines, culverts and drainage in rural areas and for municipal infrastructure in urban areas. Most housing units financed under this program will be small in size and the sites chosen for inclusion in this program will be widely scattered throughout the country.

b. Slum and Shanty Upgrading

This program will provide building material loans and some level of infrastructure to existing slum and shanty areas.

c. Institutional Strengthening

This component of the HG will provide technical advisory services to strengthen and improve the GSL's capacity to develop its housing programs from the policy, planning and implementation standpoint on a self-sustaining basis.

2. Status of Environmental Planning

Under the leadership of the MLGHC, an environmental bill was in the process of being passed in September 1980. Its thrust was to create the Central Environmental Authority, an advisory committee which is to be attached directly to the Prime Minister's office. The Prime Minister is to appoint an Environmental Council to be the functional part of the CEA. The Council would also be an advisory body, at least at the beginning. The line Ministries are to continue to exercise operational authority over implementation of any advisory opinions.

At the current time, environmental and scientific concerns are distributed among a number of organizations and agencies. Mapping, meteorology, geology, soils, forestry and wildlife all are covered by their own agencies. Confrontations with development-oriented projects do occur, frequently resolved solely on development grounds. The National

Science Council provides limited financial support for research and advises at the national level on science and technology.

## II. EXAMINATION OF ENVIRONMENTAL IMPACTS ASSOCIATED WITH THE HG PROGRAM

### A. SUMMARY OF PRINCIPAL ENVIRONMENTAL CONCERNS

The following concerns have been identified as the primary elements which require consideration and appropriate response in order to ensure an environmentally sound program:

- natural hazards (cyclones, floods, beach erosion, limestone dissolving)
- infrastructure services

### B. DISCUSSION OF PRIMARY ENVIRONMENTAL CONCERNS

#### 1. Natural Hazards

##### a. Cyclonic Storms

Sri Lanka is located in the vicinity of two major cyclone-prone areas of the world, the Bay of Bengal and the Arabian Sea, which are important regions of the Indian Ocean. In fact, cyclones are created both to the west and east of the island. Fortunately for Sri Lanka, the cyclonic storm tracks almost always move away from the island. Between 1891 and 1970, whereas on the average there were six cyclonic storms formed each year in the Indian Ocean, there were only four cyclonic storms (March 1907, November 1922, December 1931, December 1964) which traveled onto Sri Lankan territory. All the other cyclonic storms went elsewhere, particularly to the top of the Bay of Bengal. Each cyclone which struck

-9-

the island came from the east, arriving in the vicinity of the area from Batticaloa to Trincomalee. Heavy rains and flooding ensued, along with higher tidal reach on the east coast, as the cyclone crossed the Dry Zone area over to the west coast and thence moved out to the ocean again.

In November 1978 a cyclone struck full-force at Batticaloa, also affected Kalmunai on the coast to the south and affected inland areas as far west as Polonnaruwa. A total of 500 lives were lost. Fully 800,000 people were classified as "victims," since they were living in the cyclone-affected area. The cyclone of 1964, which reached land at Trincomalee, killed 800 people, left 280,000 people as victims, and left 100,000 people homeless. Therefore, the east coast is clearly a cyclone-prone area. Special locational features (especially to be above the storm surge level, the coastal area where the cyclone causes higher and more turbulent ocean height in a dome of rushing water atop the normal high tide level) and special design features (particularly to protect roofs and columns) are required in this part of the country.

Cyclonic storms which hit Sri Lanka nevertheless are a regional problem rather than a national problem, striking as they do on the eastern and northern coast. The Highlands provide a barrier which blunts the force of the cyclone before it can reach the highly-populated Southwest, including Colombo. In addition, cyclones require to be traveling over large bodies of water in order to maintain their intensity and destructive power, so that inland areas in general are less prone to devastation.

-11-

#### d. Limestone Dissolving

The Jaffna peninsula, the only limestone region of the country, has areas of karst. When water moves through the limestone, it dissolves the rock, thereby creating caverns and underground funnels. At times, surface pieces of land can fall right into these holes, with no apparent warning. Although Jaffna itself is not supposed to be underlain by this type of limestone, nearby areas may have it. Therefore a preliminary check should be performed in order to ensure a stable foundation.

#### 2. Infrastructure Services

The country is in great need of safe potable water and sewerage systems. The multi-million dollar foreign assistance programs referred to earlier are an indication of critical municipal needs throughout the country to strengthen the existing water and sewerage systems. Increasing urbanization has made essential the upgrading of the prevalent existing individual well water and individual bucket latrine systems. Even in cases where community systems are currently utilized, such as standpipes and multiple latrines, improvements should be made.

In the case where HG programs involve new site development, such as Sites and Services, Aided Self-Help and Model Villages, the capability to provide water and sewerage services will be an important determinant of project selection and development.

b. Flooding

Because rainfall is so heavy and intense, and because the rivers display a rapid, high-velocity fall in elevation from the Highlands into very broad, sinuous floodplains which cannot handle the stormwater within the river banks, the country periodically experiences heavy flooding. In October 1967, the Colombo area incurred 24 deaths while 95,000 people were made victims from a flood. In December 1969, the Eastern, North Central and Southern Provinces suffered 62 deaths and 1,000,000 victims. Flooding ranks second behind cyclonic storms as a major disaster in Sri Lanka.

Areas susceptible to inundation require identification. With this spatial understanding of flood-prone areas, either prohibition of HG activities in this zone, or appropriate design features to minimize dangers, would be essential measures to perform.

c. Beach Erosion

Mining of sand and coral, along with alteration of river channels as they reach the ocean, and construction of improper groins which destroy normal coastline patterns, have created additional problems to the natural dynamics of coastline changes. Erosion and other destructive processes may then occur which undercut or obliterate houses and other structures located too close to the flux area of the coastline. This is a localized problem which requires awareness for proper site location of HG projects, especially since almost all the major population centers are located on the coast (see Figure 1).

### C. HG RESPONSE TO ENVIRONMENTAL CONCERNS

The Housing Guaranty Program for Sri Lanka is being developed within the overall long range development plan of the country. This program is designed to improve and enhance the shelter and associated environmental conditions in selected sites and to strengthen the GOSL institutions to respond to the needs of the people earning less than median income.

→ The HG program is not likely to have significant adverse impact on the natural environment discussed in this IEE, because; 1) units financed under the ASH program will be small in size and sites selected under this program will be widely dispersed throughout the country and, 2) the Slum and Shanty Upgrading Program will involve measures that should improve the quality of the environment. Therefore, further environmental analysis is not necessary.

Furthermore, the detailed technical design for each sub-project will ensure that HG projects are not adversely affected by the environmental factors discussed in this IEE. Technical design for each sub-project will ensure that houses funded by HG can withstand high wind velocity. The site selection criteria will ensure that housing is not placed in the areas affected by floods, beach erosion and limestone dissolving, without adequate precautionary measures. Since the HG projects will be on scattered sites, we do not anticipate any difficulty in selecting sufficient number of sites away from potential environmental hazards.

In terms of infrastructure services the GOSL has already embarked upon a major sewerage system for Colombo and other cities. The upgrading of community facilities and urban infrastructure will be a basic component in each of the sub-projects. Extension of water supply, road grading, paving of roads and paths and provisions of proper drainage, trash collection and access to health services and education will be found in greater or lesser degree in all the sub-project areas.

Waterless composting toilets are proposed in those communities not serviced by waterborne sewer systems. The Reed Oderless Earth Closet and the Ventilated Alternating Pit Latrine both offer vast improvements over the

pit latrines commonly in use throughout Sri Lanka. They require relatively little maintenance and infrequent emptying (once every two years). They are relatively safe in that the material to be removed is free of pathogens, having composted for at least a year before being opened. One possible drawback in using these systems is the potential for contamination of ground water. In areas where this possibility exists it is suggested that use of composting toilets be considered. Waterborne sewer systems will be used in those towns already having such systems but only if existing treatment is upgraded or determined to be adequate for the protection of fisheries and/or downstream water supplies. New waterborne systems will be introduced only after sufficient study indicates that the costs of treatment can be borne and that long range water supplies are adequate for the greatly increased demands of a waterborne sewage system. The HG program is designed to benefit people in several cities and numerous project sites within those cities. As a result this program will not place an undue burden on the existing urban infrastructure, and affect the environment in an adverse manner. Therefore, further consideration of these issues is not necessary from the environmental point of view.

During the detailed design phase for each sub-project, the criteria will be developed which would tend to enhance the benefits to the maximum number of people and also establish minimum standards for site and development. An example of the type of standards already developed by GOSL are the following:

Public Toilets:	Maximum 100 yards from any residential unit. 1 toilet per 5 units. Maximum 20 toilets per block.
Storm Water:	Evacuation of storm water on main public streets as a minimum.
Garbage Collection	Maximum 50 yards from housing units. Placed along vehicular access ways.
Water Supply:	Maximum 50 yards from housing units. Maximum 10 units per tap. Where possible design for future individual connections.

**Bathing Facilities:** Maximum 100 yards from housing units.  
Maximum 10 units per bathing place.

**Electricity:** Public street lights - Maximum 50 yards apart or minimum 2 posts per acre. Where possible design for future individual connections.

**Access:** Maximum district 100 yards from housing unit to vehicular road of 2 lanes (minimum width 30', 22' paved) to emergency vehicular road (minimum 1 lane, 15' width with 11' paved). Each housing unit accessible by footpath (minimum 5' wide).

**Density:**

Average Plot:	525 ft.	
Minimum Plot:	375 ft.	existing
Average Unit:	350 ft.	
Minimum Unit:	250 ft.	
Average Plot:	550 ft.	Proposed for
Minimum Plot:	410 ft.	upgrading

50 plots/acre gross residential density (Includes residential plots, roads, footpaths, public toilets, bathing areas, and open spaces, Excludes schools, dispensaries, community centers, etc.

### III. RECOMMENDATIONS

#### A. THRESHOLD

Based on the foregoing analysis, and in accordance with AID Regulation 16 and DS/H Manual Order 42-0, a Negative Threshold Decision is recommended. This determination is based upon the fact that the HG program will not have significant impacts on natural environment and infrastructure systems.

APPENDIX A. PRINCIPAL INDIVIDUALS CONSULTED  
IN PREPARATION OF IEE.

- K.H.J. Wijayadasa, Additional Secretary, Development, MLGHC
- W.D.A. Ailapperuma, Director-General, UDA
- N. Wijesingha, Town and Country Planning Department, MLGHC
- K.M. Abeysinghe, Commissioner, Department of Local Government,  
MLGHC
- K.H.A. Ranaweera, Deputy Director, Program Development, MLGHC
- Dilip Sonawane, Advisor from ODA to the NHDA
- N.D. Dickson, Director, Planning Division, UDA
- Eswaran Selvarajah, Director, Slum and Shanty Improvement  
Division, UDA
- A. Maheswaran, Additional Secretary, Ministry of Mahaweli  
Development
- Dr. R.P. Jayewardene, Secretary-General, National Science  
Council, Ministry of Industries and Scientific  
Affairs (MISA)
- D.J.A.C. Hapurachchi, Director, Geological Survey Department,  
MISA
- K.D.N. de Silva, Director, Meteorology Department, MISA
- V.R. Nanayakkara, Conservator of Forests, Ministry of Lands  
and Land Development (MLLD)
- Leslie Herath, Chairman, Water Resources Board, MLLD
- D.T.W. Thalgodapitiya, Chairman, Colombo District (Low-  
Lying Areas) Reclamation and Development Board, MLLD
- S.B. Boyagane, Deputy General Manager, National Water  
Supply and Drainage Board (NWSDB), MLGHC
- A.P. Chandraratne, Assistant General Manager, Projects, NWSDB
- S.R. Amarasinghe, Director, Coast Conservation Division,  
Ministry of Fisheries
- Dr. Mohan Rodrigo, Assistant Director, Environmental and  
Occupational Health, Ministry of Health
- Jehan K. Cassim, Chairman, Common Amenities Board, MLGHC
- Jeff Evans, Mahaweli Project Officer, AID/Sri Lanka

N. Mahesan, Disaster Relief Officer, AID/Sri Lanka

Leroy Purifoy, Jaffna Market Town Water Project Officer  
AID/Sri Lanka

Randy C. Cummings, Anthropologist, AID/Sri Lanka

## APPENDIX B. ENVIRONMENTAL REFERENCES.

- Balendran, V.S. 1970. Groundwater in Ceylon. Geological Survey Department. 17 pp.
- Colombo District (Low-Lying Areas) Reclamation and Development Board. April 1980. New Capital City Drainage Project, Inception Report. Prepared by Engineering Consultants Ltd. - Samitar Ltd.
- de Silva, S.F. 1954. A Regional Geography of Ceylon. Colombo: The Colombo Apothecaries' Company, Ltd. 301 pp.
- Economic Review. November/December, 1978. "The Mahaweli Project." Colombo: People's Bank. PP. 3-19.
- Economic Review. April 1980. "Colombo Urban Development." Colombo: People's Bank. PP. 3-22.
- Gausson, H. et al. 1968. Explanatory Notes on the Vegetation Map of Ceylon. 72pp.
- Herath, J.W. 1980. Mineral Resources of Sri Lanka. Geological Survey Department. 70 pp.
- India Meteorological Department. 1979. Tracks of Storms and Depressions in the Bay of Bengal and the Arabian Sea, 1877-1970. 186 pp.
- Library of Congress, Science and Technology Division. November 1978. Draft Environmental Report on Sri Lanka. Prepared for AID/DS/ST with U.S. Man and Biosphere Secretariat. 71 pp.
- Marga Institute. 1976. Housing in Sri Lanka. 251 pp.
- Ministry of Planning and Employment. 1976. Environmental Management in Sri Lanka. Report of a Sub-committee. Colombo: National Science Council. 65 pp.
- MLGHC. February 1980. Report of the Committee on Design, Construction and Regulations for Buildings in the Cyclone-Prone Areas of Sri Lanka. Sessional Paper No. III-1980. 42 pp.
- Mueller-Dombois, D. 1968. "Ecogeographic analysis of a climate map of Ceylon with particular reference to vegetation." The Ceylon Forester VIII: Nos. 3 & 4 (New Series). PP. 39-58, with map.
- Nyrop, Richard F. et al. 1971. Area Handbook for Ceylon. 323 pp.

- Ressler, Everett M. July 1979. Sri Lanka Cyclone Handbook.  
Draft for UNDP.
- Survey Department. 1975. Road Map of Sri Lanka. Scale 1:  
506,880.
- Survey Department. 1978. Sri Lanka, Water Resources Develop-  
ment Plan. Map in 4 sheets, Scale 1:253,440.
- The Gazette of the Democratic Socialist Republic of Sri Lanka.  
August 8, 1980. National Environmental, a bill. 18 pp.
- The Sri Lanka Forester. January-December 1979. Vol. XIV,  
Nos. 1 & 2, pp. 3-66, articles on forestry and environment.
- UNDP. April 1978. Colombo Urban Area Development Plan.  
Technical Report, Vol. 2. By Polytechnica/Terplan  
(Prague) et al. 415 pp.
- US AID, Office of Foreign Disaster Assistance. June 1979.  
Recent Disaster History, Sri Lanka. Page 122.
- US Department of Health, Education and Welfare. March 1979.  
A Background Paper on Sri Lanka's Health Sector.  
Prepared by Division of Program Analysis, Office of  
International Health. 147 pp.
- Weatherly, W. Paul and Arnold, John H. Jr. September 1977.  
Environmental Assessment of Stage II of the Mahaweli  
Ganga Development Project. Prepared for AID, ASIA/TR/SDP  
99 pp. & Appendices.