

JANUARY 1983
REVISED MAY 1983

UNCLASSIFIED

PDAAN 356

PROJECT AUTHORIZATION

SRI LANKA

Private Enterprise Promotion
Project No. 383-0082
A.I.D. Loan No. 383-W-032

1. Pursuant to Sections 103 and 106 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Private Enterprise Promotion Project for Sri Lanka (the "Cooperating Country") involving planned obligations of not to exceed One Million United States Dollars (\$1,000,000) in loan funds and Three Million United States Dollars (\$3,000,000) in grant funds over a one year period from the date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the project. The planned life of the project is five years from the date of initial obligation.

2. The project is designed to assist the Cooperating Country to foster increased private investments, both foreign and domestic, in the Cooperating Country, particularly in the sectors of the economy of interest to A.I.D., using those key resources where comparative advantage exists. An Investor Service Center will be established, existing management training and entrepreneur development programs will be expanded and upgraded, investment profiles and pre-feasibility studies will be prepared for use in mobilizing private resources for investments, specific investment opportunities will be promoted, and selected sector support activities emanating from the Sector Assessment will be supported.

3. The Project Agreement, which may be negotiated and executed by the officer to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority, shall be subject to the following essential terms and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate.

4. a. Interest Rate and Terms of Repayment.

The Cooperating Country shall repay the Loan to A.I.D. in United States Dollars within forty (40) years from the date of first disbursement under the Loan, including a grace period of not to exceed ten (10) years. The Cooperating Country shall

pay to A.I.D. in United States Dollars interest from the date of first disbursement under the Loan at the rate of (a) two percent (2%) per annum during the first ten (10) years, and (b) three percent (3%) per annum thereafter, on the outstanding disbursed balance of the Loan and on any due and unpaid interest accrued thereon.

b. Source and Origin of Commodities, Nationality of Services.

Commodities financed by A.I.D. under the project shall have their source and origin in the United States of America or the Cooperating Country when grant financed and in countries included in A.I.D. Geographic Code 941 or the Cooperating Country when loan financed, except as A.I.D. may otherwise agree in writing. Except for ocean shipping, the suppliers of commodities or services shall have the Cooperating Country or countries included in Code 941 of the A.I.D. Geographic Code Book as their place of nationality when loan financed and the Cooperating Country or the United States of America when grant financed. Ocean shipping financed by A.I.D. under the project shall, except as A.I.D. may otherwise agree in writing, be financed, on flag vessels of the United States of America when grant financed, and on flag vessels of the United States of America, or the Cooperating Country when loan financed.

Signature Charles W. Greenleaf
Charles W. Greenleaf
Assistant Administrator
Bureau for Asia

August 8, 1983
Date

Clearances:	Date	Initial
Herbert E. Morris, GC/Asia	<u>6/1/83</u>	<u>HEM</u>
G. R. Van Raalte, Asia/PD	<u>6/27/83</u>	<u>GRV</u>
Larry Smucker, Asia/DP	<u>6/27/83</u>	<u>LS</u>
John Gunning, Asia/PNS	<u>6/11/83</u>	<u>JG</u>
Robert F. Ichord, Asia/TR	<u>6/1/83</u>	<u>RFI</u>
Howard R. Sharlach, Asia/PD	<u>6/2/83</u>	<u>HR</u>
Dennis Wendel, Asia/PD	<u>6/2/83</u>	<u>DW</u>
Andrea Mohn, PRE/PPR	<u>6/2/83</u>	<u>AM</u>
John Van Der Veen, PPC/PDPR	<u>6/2/83</u>	<u>JVDV</u>
Edgar C. Harrell, AA/PRE	<u>6/2/83</u>	<u>EC</u>

GC/Asia: ^{SAT} STisa:hp:6/1/83

1a

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ACRONYMS

- ADB - The Asian Development Bank.
- APAC - Asia (Bureau) Project Approval Committee.
- FIAC - Foreign Investment Advisory Committee. Reviews and approves foreign investment proposals, including incentives, for projects to be located outside the investment promotion zones (free trade zones). May produce for domestic and/or export markets. Encourages majority ownership by Sri Lankans. Staff work provided by IECD, but members from other GSL agencies also.
- GCEC - Greater Colombo Economic Commission. Reviews and approves foreign investment proposals, including incentives, for projects to be located in investment promotion zones. Plants must produce for export only. May be 100% foreign owned.
- GDP - Gross Domestic Product.
- GSL - The Government of the Democratic Socialist Republic of Sri Lanka.
- IBRD - International Bank for Reconstruction and Development (The World Bank).
- ICOR - Incremental Capital Output Ratio.
- IECD - International Economic Cooperation Division, Ministry of Finance and Planning. Also functions as FIAC staff and is GSL designated party to manage this project.
- IQC - Indefinite Quantities Contract. An existing AID contracting mechanism to secure timely short term technical assistance.
- JACC - Joint Agricultural Consultative Committee. A AID supported activity to foster joint U.S. - Sri Lanka agro-industry investments.
- LIAC - Local Investment Advisory Committee. Reviews/approves Sri Lankan investment projects where no foreign partner is participating.
- PSC - A Personal Services Contract with an individual instead of a firm.

PROJECT DATA SHEET

AGENCY CODE

Amendment Number

DOCUMENT

NO.

3

COUNTRY/ENTRY SRI LANKA

PROJECT NUMBER

383-0082

BUREAU/OFFICE

ASIA

04

PROJECT TITLE (maximum 40 characters)

Private Enterprise Promotion-Phase I

PROJECT ASSISTANCE COMPLETION DATE (PACD)

MM DD YY
014 31 08 81

ESTIMATED DATE OF OBLIGATION
(Under "3" show enter 1, 2, 3, or 4)

A. FUND FY 813 B. QUARTER 3 C. FUND FY 813

3. COSTS (\$500 OR EQUIVALENT)

A. FUNDING SOURCE	FUND FY 83			LIFE OF PROJECT		
	B. FX	C. LC	D. Total	E. FX	F. LC	G. Total
AD Appropriated Total	2,890	1,110	4,000	2,890	1,110	4,000
(Grant)	2,090	910	3,000	2,090	910	3,000
(Loan)	800	200	1,000	800	200	1,000
Other						
U.S.						
Host Country		900	900			
Other Donors)					3,600	3,600
TOTALS	2,890	2,010	4,900	2,890	4,710	7,600

9. SCHEDULE OF AID FUNDING (\$500)

A. APPROPRIATION/PURPOSE	B. PRIMARY CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		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) FN	734B	840	840	-	-	1,500	500	1,500	500
(2) SM	734B	840	840	-	-	1,500	500	1,500	500
(3)									
(4)									
TOTALS						3,000	1,000	3,000	1,000

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

700 839 810

11. SECONDARY PURPOSE CODES

663

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

A. Code BL INTR TNG DEL TECH

13. PROJECT PURPOSE (maximum 480 characters)

To foster improved investment climate and increased private sector investments in Sri Lanka, both domestic and foreign, using resources where comparative advantages exist. Emphasis will be on agro-industries.

14. SCHEDULED EVALUATIONS

Initial MM YY Final MM YY
014 815 016 818

15. SOURCE/ORIGIN OF GOODS AND SERVICES

000 941 Local Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of 1 page 2 if amendment)

17. APPROVED BY

Signature

151

Name S.J. Littlefield
Director, USAID/Sri Lanka

Date Signed

MM DD YY
01 13 1983

18. DATE DOCUMENT RECEIVED BY AID, W. OR FOR USAID DOCUMENTS, DATE OF DISTRIBUTION

MM DD YY
02 11 08 83

DIRECT PROJECT AUTHORIZATION

SRI LANKA

Private Enterprise Promotion (Phase I)
Project No. 363-0082
Loan No. 363-T-030

1. Pursuant to Sections 103 and 106 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Private Enterprise Promotion Project (Phase I) ("The Project") for Sri Lanka (the "Cooperating Country") involving planned obligations of not to exceed one million dollars (\$1,000,000) in loan funds and three million dollars (\$3,000,000) in grant funds over a one year period from the date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the Project. The planned life of the project is five years from the date of initial obligation.
2. The Project is designed to assist the Cooperating Country to foster increased private investments, both foreign and domestic, in Sri Lanka, particularly in the sectors of the economy of interest to A.I.D., using those key resources where comparative advantage exists. An Investor Service Center will be established, existing management training and entrepreneur development programs will be expanded and upgraded, pre-feasibility studies prepared for use in mobilizing private resources for investments, specific investment opportunities promoted, and selected sector support activities emanating from the Sector Assessment will be supported.
3. The Project Agreement, which may be negotiated and executed by the officer to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority, shall be subject to the following essential terms and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate.
4. a. Interest Rate and Terms of Repayment: The Cooperating Country shall repay the Loan to A.I.D. in United States Dollars within forty (40) years from the date of first disbursement under the Loan, including a grace period of not to exceed ten (10) years. The Cooperating Country shall pay to A.I.D. in United States dollars interest from the date of first disbursement under the Loan at the rate of (a) two percent (2%) per annum during the first ten (10) years, and (b) three percent (3%) per annum thereafter, on the outstanding disbursed balance of the Loan and on any due and unpaid interest accrued thereon.

b. Source and Origin of Goods and Services: Except as A.I.D. may otherwise agree in writing and except for ocean shipping, goods and services financed by A.I.D. under the Project shall have their source and origin in the United States of America and the

Cooperating Country when grant financed and in countries included in A.I.D. Geographic Code 941 and the Cooperating Country when loan financed. Ocean shipping financed by A.I.D. under the Project shall, except as A.I.D. may otherwise agree in writing, be financed, on flag vessels of the United States of America when grant financed, and on flag vessels of the United States of America, other countries included in A.I.D. Geographic Code 941, and the Cooperating Country when loan financed.

Signature: _____
Assistant Administrator
Bureau for Asia

Date:

PART I - SUMMARY AND RECOMMENDATIONS

A. Recommendations

Grant: \$3,000,000 life of project to be obligated in FY 83.

Loan: \$1,000,000 life of project to be obligated in FY 83.

Loan Terms: 2% interest during grace period and 3% thereafter. 40 year repayment period, including 10 year grace period.

B. Summary Description

1. Why the project is needed

The economic strategy of the Government of Sri Lanka (GSL) continues to be based on the policy package introduced in 1977. This policy package was designed to move the economy away from a long period of rigid government controls to one in which market forces and the private sector would play an increasing role. The GSL believes that a vigorous private sector is necessary to meet the goals of increasing exports, employment, efficiency, and output. Public investment in essential infrastructure and expansion of the production base is, therefore, seen as complementary to the efforts of the private sector.

The economy has responded strongly to the policy reforms and substantial progress has been made on most fronts. The private sector has revived and its vitality is evident. While GSL policies have been strongly supportive of private sector activities, the increase in investments, particularly in production activities, has not been as fast as planned. In addition, the economy now faces serious problems caused both by its internal rapid growth and the international economic situation. The most serious problems include: (a) the economy not generating new jobs fast enough for its backlog of unemployed and the growing population; (b) serious imbalance in its international trade; and (c) increasing government debt reflecting, in part, ambitious public sector investments in the large scale irrigation and hydro-electric power projects and housing programs.

The economic policy of the Government of Sri Lanka is directed toward job creation through, in part, an increase in exports and a shift in investment from the public to the private productive sectors, with an emphasis on using indigenous resources to produce export goods.

While the private sector has demonstrated substantial growth

since 1977 in response to the opportunities provided by the easing of controls, the growth of production for domestic use and export has been constrained by a number of factors including:

- a. lack of a comprehensive strategy and plan needed to meet the GSL's objective of having the private sector contributing 50 percent of total national investment by 1986;
- b. lack of knowledge about local and foreign market demand for goods or services that could be supplied by local business;
- c. insufficient knowledge of the country's resources and how they could best be used;
- d. lack of inventory of investment opportunities;
- e. lack of detailed information about the inter-relationship of all the factors that influence investment and productivity;
- f. lack of one central place where potential investors can obtain information and assistance in all aspects of investment;
- g. insufficient numbers of trained management people;
- h. insufficient capacity in training institutions and lack of programs with latest training materials and subject content to train managers and potential entrepreneurs interested and capable of starting businesses; and
- i. lack of appropriate technology to fully use available natural resources and the labor force to produce goods of a quality that are competitive in the world markets.

The first five factors are addressed in a four-month sector assessment begun by A. D. Little under an IQC task order in February, 1983. The remaining factors are the subject of this project.

A team from Robert R. Nathan Associates, financed by AID under an IQC contract, visited Sri Lanka in June-July, 1982 to briefly study the opportunities for increased private sector investment.

Their project design study, September 15, 1982 identified six areas where outside aid is urgently needed and proposed a three year effort to identify and alleviate the constraints to expanding the private sector. This AID-GSL project design draws on sections of the Nathan report. It also reflects the existence of over \$100 million from IERD and ADB for (a) loans to the private sector; (b) T.A., training, etc.; and (c) limited direct equity investments.

An earlier version of this Project Paper (PP) was reviewed and approved by APAC in September 1982. Objections from the House Appropriations sub-committee postponed authorization in FY 82. The PP has been changed to reflect concerns expressed in Chairman Long's letter, the visit to Colombo by his staff director Ed Powers in October 1982 and AID/W guidance in SWAF 291009, October 16, 1982. Changes include (1) financing the sector assessment with PD&S funds before this PP is approved, (2) placing more emphasis on management training, (3) making the investors service center an early output of the project, and (4) including export promotion as an area for which assistance may be provided.

2. What the Project Is

The Private Enterprise Promotion Project (PEPP) will help increase private investments, domestic and foreign, in Sri Lanka by assisting the GSL and the private sector* in five areas:

a. Investors Service Center (ISC): The center will function as the hub for supporting the expansion of the private sector. It will potentially play a key role not only in implementing the important project components listed below but will also form a bridge between both the public policy and regulatory entities (FIAC, GCEC, etc.) and the private sector (Chambers of Commerce, etc.). The ISC, as a service oriented entity will provide "one stop shopping" for local and foreign investors seeking information and/or assistance in pursuing investment opportunities. It will actively assist with the preparation of pre-feasibility studies and investment profiles and act as an "honest broker" in bringing interested investors together. The ISC will provide support for the U.S./Sri Lankan Joint Agricultural Consultative Committee activities.

The ISC is planned as a self-supporting independent business entity with important links to both the public and private sectors. The detailed plans on how the ISC will operate, its financing, its roles, responsibilities and activities, as well as personnel and services are being discussed thoroughly by the Sri Lankan public and private sectors. A complete plan for the establishment of the ISC as well as its legal authority will be a condition precedent to disbursement of project funds. This plan will also establish firm targets for the center's financial self-sufficiency.

*The private sector, as used in the PP, is the non-GSL owned companies and firms engaged in manufacturing, agro-business and other private sector business endeavors. It includes foreign privately owned companies engaged in business, but does not include individual farmers or farm co-ops.

b. Management Training and Entrepreneur Development: This project component will support ongoing management training and entrepreneur development of existing training institutions as well as assist investors in meeting their specialized training requirements. Management courses, curricula, training materials, etc., will be expanded and updated at specific training institutes: the Management Trainers Development Program (training of trainers) at the Institute of Chartered Accountants; the entrepreneur efforts of the Sri Lanka Chamber of Small Industries; programs offered by the Industrial Development Board tailored to needs of the All Ceylon Trade Chamber; and the U.S. Junior Achievement Program concepts incorporated into the National Youth Services Council activities.

c. Pre-feasibility Studies and Investment Profiles: The studies will define the investment opportunities and provide detailed analyses of particular investment areas for potential investors to make preliminary decisions. They will be conducted through the ISC for groups of potential investors or individual firms. Prospective investors will participate wherever possible in the studies either by identification and selection of the areas or subsectors to be studied, participate in the scope or design of the studies, and finally through direct financial or in-kind support for the execution of the studies profiles. A condition precedent to disbursement for this project component will be criteria for selection of studies and private investor participation. The profiles will provide minimal information to enable investors to decide whether the project area is worth further attention. The profiles will be used for small business opportunities where the cost of a full pre-feasibility study would not be justified. It is expected that at least half of the studies undertaken will be for potential agro-industrial investments.

d. Investment Promotion: This project component will focus on improving the existing promotional activities directed toward foreign and Sri Lankan investments and joint ventures. Project funds will only cover part of the costs of the promotional activities. Success of the project depends on the extent to which the promotion efforts succeed in involving the pre-feasibility studies and profiles. The promotion missions will also do trade (export) promotional work, specialized consulting and marketing services in key resource areas, and participate in investment trade fairs which augment the on-going activities of the FIAC and GCEC.

e. Selected Sector Support: The sector assessment may identify subjects for additional or more detailed analysis. An example might be a detailed review of the rural financial markets. It might also identify for project financing other activities, not otherwise covered in this PP, which would substantially contribute toward obtaining the project's objectives. Support might also be provided to local International Executive Service Corps activities if IESC should submit a proposal, acceptable to GSL and USAID, which is consistent with the project's objectives and purpose.

f. AID's financial plan:

<u>ITEMS</u>	<u>A.I.D</u>		<u>Total</u>
	<u>Foreign</u> <u>Exchange</u>	<u>Local</u> <u>Currency</u>	
<u>QUANT</u>	<u>(US \$000)</u>		
Technical Assistance			
- Long Term	500	210	720
- Short Term	790	210	1,000
Participant Training	30	50	90
Minor Equipment	75	70	145
Other Direct Costs	145	130	275
Sub-Total	1,550	680	2,230
Contingency	155	70	225
Inflation	385	160	545
Total	2,090	910	3,000

LOAN

Technical Assistance (short term)	600	150	750
Contingency	60	15	75
Inflation	140	35	175
	-----	-----	-----
Total	800	200	1,000
	=====	=====	=====
Total Grant/Loan	2,890	1,110	4,000
	=====	=====	=====

g. Cooperating Country Contributions: The GSL and the private sector have been increasingly active in promoting additional investments and in improving the investment climate. The USAID thus considers it appropriate to include about 20% of the estimated budgets of the four GSL organizations (see page 19) that principally participate in the project as the GSL contribution.

In addition, the total operating budgets of various organizations and training institutions in the private sector would be substantial. There will be considerable cost sharing for some activities, but a reasonable estimate cannot be made at this time for such contributions as: Chambers of Commerce participation in the Investors Service Center; fees for training courses; salaries of people being trained; investments of training institutions to improve and expand their training capabilities; and workshops and seminars.

Therefore, the GSL contribution on the Project Data Sheet of \$3.6 million represents 20% of the estimated combined budgets for the four project years for the four organizations described in the Cost Estimate and Financial Plan section of this PP.

3. How the Project will be Implemented

The project will be implemented by the International Economic Cooperation Division (IECD), Ministry of Finance and Planning with the guidance of the joint GSL/Private Sector Coordinating Committee. One or two U.S. consulting firms, perhaps in joint venture with Sri Lankan consulting firms, will be contracted by the GSL to provide most of the inputs. If two contractors are used, one contract would be for implementing the Investors Service Center, pre-feasibility studies and profiles, investment promotion and selected sector support activities. Another host country contract would be with a recognized business training organization to carry out the management training and entrepreneur development components. The IECD will be responsible for implementing or coordinating the implementation of the action plan, developed from the recommendations of the sector assessment, to promote investments and remove obstacles to investments.

Since it may be close to one year before the host country contract is executed, USAID may provide before the contract is let consultants (U.S. and Sri Lankans) under IQC, PSC or other quick arrangements to do a few pre-feasibility studies of high priority investment opportunities and assist with creation of the ISC.

The investment and export promotion aspects of the project will be carried out in close collaboration with on-going Sri Lankan promotion efforts. These efforts will employ a variety of means to involve potential investors in the pre-feasibility studies and profiles activity.

C. Summary Findings

The design of this project incorporates some of the work of the U.S. consulting firm Robert R. Nathan Associates. It has the strong backing of the GSL and the Sri Lankan private sector.

The project is technically feasible with the Sri Lankan private sector being fully involved through the joint GSL/Private Sector Coordinating Committee. Money spent on preparing for new investments has a high payoff although this cannot be calculated precisely. The local institutions including those to benefit from the large technical assistance effort are capable of carrying out the project. Aid to the private sector is compatible with the social and cultural environment in Sri Lanka and the benefits of increased employment, productivity and income will be distributed to the rural agricultural population.

The officials of the GSL and the private sector are enthusiastic about the project and have assured their full support. This project responds to the new AID initiative to include the private sector in development. It also features institution building, technology transfers and policy dialogues. Therefore, the project is highly desirable, beneficial, feasible and should be authorized as presented in this project paper.

D. Project Issues

The three issues identified by APAC in its approval of the PID have been adequately resolved in this project paper. The project has been modified to reflect concerns and guidance from the House Appropriations sub-committee and AID/W in September-October, 1982. (See Annex A).

F. Project Committee

USAID:

James R. Meenan, Private Enterprise Officer (Project Officer)

Ralph M. Singleton, Chief, PD&EP
Lee Ann Ross, Economist
Oswin Silva, Special Assistant

Sri Lankan (Coordinating Committee Members):

C. Chaninugan
Deputy Secretary of Treasury
Ministry of Finance and Planning

Wilfred Nanayakkara (Committee Chairman)
Director, International Economic Cooperation Division
Ministry of Finance and Planning

Gilbert Jayasuriya
Past President
Federation of Chambers of Commerce

R.S. Wijeyesekera
Chairman
Forbes and Walker Ltd.

Ganini Wijesinghe
President
Institute of Chartered Accountants

Pathmasiri Dias
President
Sri Lanka Chamber of Small Industries

P.A. Silva
Chairman
Ceylon Chamber of Commerce

Chris de Saram
Chairman
Chemical Industries (Colombo) Ltd.

C.P. de Silva
Chairman
Aitken Spence & Co. Ltd.,

S. Kulatunga
Director General & Secretary
Sri Lanka Export Development Board

S.L. Kuruppu
Deputy Director
External Resources Department
Ministry of Finance & Planning

PART II. PROJECT RATIONALE AND DESCRIPTION.

A. Background

1. Economic Development Strategy: In 1977, the present government inherited an economy which over the preceding twenty years has been characterized by low rates of economic growth and by government economic policies emphasizing extensive social welfare programs and direct intervention by the state in production and distribution. A system of price controls and subsidies, particularly for food, had resulted in significant distortions in the economy. These distortions were compounded by a dual foreign exchange rate system. As a result of these policies, few resources were left for investment in new productive capacity to absorb a growing labor force. In addition to suffering from a lack of investment, the manufacturing sector had also become increasingly inefficient as government restrictions prevented the import of sufficient raw materials, equipment and spare parts.

The government's response was to adopt policies designed to reduce state control, encourage private investment and enterprise, foreign exchange rates for the rupee were unified and the rupee was allowed to float. A comprehensive trade and exchange control liberalization program was implemented; most imports, particularly of industrial raw materials and machinery, were freely permitted with import controls being applied only to a limited number of items. A new tariff structure designed to protect local enterprise, but allowing some import competition, was implemented and strong monetary policy involving a major interest rate reform was adopted.

Consumer subsidies were drastically reduced to divert resources from consumption to investment. A wide range of tax incentives were announced to encourage the private sector to increase its investments. State-owned enterprises were required to operate on a commercially viable basis without being a burden on the government budget, and in some cases monopoly rights of certain state-owned enterprises were abolished. Economic strategy was changed from one of import substitution to one of export-led growth. Foreign investment has been encouraged, particularly in the newly created Investment Promotion Zones where a wide range of incentives and tax concessions are provided. By the end of 1981, forty-one businesses representing a total investment of \$357 million and employing 20,000 workers had been established in the zones.

The response of the economy to the government's policy reforms initiated in 1977 was registered in the 6.5% average annual real increase in GDP for the four years 1978 to 1981. This rate of growth was twice as high as that attained from 1970 to 1977.

2. The Role of the Private Sector: While there have been no

definitive studies on what exactly constitutes the "private sector" in Sri Lanka, the following rough breakdown of the private/public mix outlines the private sector:

a. Employment: The labor force was about 5.6 million in 1980 with 15% unemployed. Of the 4.8 million employed, 2.8 million or 58% are in the private sector. Private sector employment is heavily concentrated in agriculture and trade.

b. Agriculture: Crops dominate agricultural production and cultivation activity is mostly confined to private farms that operate within the market framework. The agricultural sector provides employment to about 45% of the labor force.

Paddy land is owned almost exclusively by private smallholders and is the main source of employment for nearly 800,000 people. Ninety percent of the rice milling capacity is in private hands and rice is sold in a free market setting with the Paddy Marketing Board making purchases under a Guaranteed Price Scheme designed to provide a minimum selling price to paddy producers. Prior to 1977, the government had a near monopoly on rice marketing.

Coconut is essentially a smallholder crop with only 10% of the land under state ownership. It provides for 100,000 jobs in cultivation and about 30,000 in processing.

The rubber sector provides about 200,000 jobs. Approximately one-third of the rubber land is under state ownership.

The government owns nearly two-thirds of total tea acreage with the balance being held by smallholders. The cultivation of tea employs an estimated 700,000 persons.

c. Industry: Manufacturing industries consist of: 29 public sector corporations; about 9,000 registered private factories composed largely of small and medium industry firms with fixed assets of under \$50,000; and over 20,000 unregistered small and cottage industries. The public sector industrial corporations, including the petroleum refinery, account for over 50% of industrial output. Output value in private factory industries grew by an average of 7.2% in the 1977-80 period while small cottage industries grew by 9.4%. Small and medium industries account for over 90% of private industrial units, over 70% of employment and over 55% of value added in private manufacturing.

About 65% of the registered small and medium industries are in and around Colombo. Unregistered small and cottage industries are more widely dispersed among small towns and villages with only about 30% in the Colombo area.

The main small and medium industry product groups, constituting about 90% of the employment and 85% of the investment in registered small and medium industries, are: textiles and garments; light engineering; rubber and chemical goods; wood and paper products. Product concentrations among unregistered small industries are found in related lines; handlooms, pottery, jaggery, blacksmithing, sheet rubber, rice mills and bricks.

As a result of GSL policy the role of public enterprises is decreasing and the government is looking to the private sector to lead the way in industrial expansion. The public sector will not be allowed to expand into new areas of industrial activity, but is being restricted to improving existing operations. Except for the production of essential items, all state-owned enterprises are being held to a standard of financial viability and are required to compete on an equal and non-discriminatory basis with the private sector and among themselves.

d. Wholesale and Retail Trade: Wholesale and retail trade are time honored traditions in Sri Lanka and have long provided a major outlet for private ambition. Import/export trade is confined largely to the Colombo area, while trade aimed at the domestic market is scattered around the country. Public sector involvement is concentrated in the regional wholesale cooperatives and the retail multipurpose cooperative societies.

e. Construction: The construction sector is dominated by the government through such agencies as the Urban Development Authority, the Building Materials Corporation and the State Construction Company. The private sector has insufficient financing and finds it hard to compete with the public sector. However, there has been substantial growth in the private construction sector in the past four years as even the GSL is relying more on private firms for implementation of the investment program.

f. Commercial Banking Sector: The Sri Lanka banking system is composed of two state banks, the Bank of Ceylon and the People's Bank, two indigenous commercial banks and nineteen foreign banks, four of which are American. The banking sector has been experiencing a boom the last couple of years and despite increased competition from the new foreign banks, the local commercial banking sector has reported unprecedented profits. The two state-owned banks control the major share of the country's banking deposits.

g. Investment: Gross domestic investment in 1981 totalled about \$1.2 billion or 29% of GDP up from \$575 million in 1977. Private investment in 1981 totalled about \$512 million as opposed to \$730 million by the public sector. The present high levels of public investment are for essential infrastructures during the 1977-85 period to support private sector activity during the mid

1980s. By 1986 it is expected that public and private investment levels will be equal and will account for 26% of GDP.

h. Composition of GDP: Looking at the private sector from a macroeconomic perspective, the following is a very rough breakdown of Sri Lanka's GDP between the public and private sectors, based on the sectoral discussion above.

COMPOSITION OF GDP, 1981
(Percent)

	Total	Public	Private
Agriculture	23	6	22
Manufacturing	18	10	8
Construction	3	6	2
Wholesale/Retail Trade	17	3	14
Other Services	27	19	8
Other	2	1	1
TOTAL	100	45	55

3. Current Government Policy: The government's Public Investment Program for 1981-1985 states: "The essence of the liberalized economic policies introduced in 1977 was to create the climate necessary to stimulate private enterprise and provide a larger role for the private sector. A vital private sector is necessary to meet the goals of increasing employment, efficiency and output. While public sector investment depends greatly upon the resources which can be generated by the private sector, public investment in essential infrastructure and expansion of the production base is seen as complementary and not competitive to the efforts of the private sector, nor as a substitute for private sector investment. This realization is fundamental to the government's decision to reduce planned public investment so as not to pre-empt the private sector and to provide a structure of incentives to that sector.

In order to promote private investment in specific areas the government established a number of new institutions and agencies such as: The Greater Colombo Economic Commission, the Export Development Board, the Foreign Investment Advisory Committee. In addition, the government also set up the National Development Bank to meet the specific needs of medium and long-term investment credit. A full description of the services offered by these institutions and their performance to date can be found in Annex E.

The government's policy changes have resulted in accelerated growth in industrial output, employment and exports as is evident from the following figures:

SELECTED PERFORMANCE INDICATORS FOR THE INDUSTRIAL SECTOR
1977 - 1981

	1977	1978	1979	1980	1981
Value Added (Rs. Million)	2,688	3,109	3,437	4,726	6,000
Capacity Utilization	60	70	72	73	74
Advances by Financial Institutions (Rs. Million)	1,273	2,191	2,709	3,256	3,453
Employment	118,576	136,168	146,260	154,563	162,000
Exports Value (Rs. Million)	941	1,944	3,737	5,485	7,059
Share in Exports (%)	-	15	24	32	34

B. Rationale for the Project

As discussed in the January 1983 Country Development Strategy Statement, this project represents USAID's first direct project intervention to stimulate the more rapid growth of the private sector in Sri Lanka.

The USAID strategy is focussing assistance in three general categories: Accelerated Mahaweli Development, food production and natural resource management, and human productivity and well-being. This project cuts across the program and is closely linked to food production, human productivity and well-being categories. The underlying objective of this project is to create jobs in productive enterprises and, in turn, to increase the productivity and well-being of the under and unemployed. Through the support of pre-feasibility studies, as well as the interest created by the Joint Agriculture Consultative Committees, a large share of the activity should be concentrated on agro-industries. Such investments would have a large spread effect throughout the agricultural rural area by supporting rural-based enterprises and farm production thereby increasing employment generation beyond the initial investments. Both those persons employed in the newly established enterprises and those producing the agricultural inputs will benefit as a result of this project.

This project also relates well to the Administrator's four priorities, the most obvious being the private sector initiative. The sector assessment, together with the resulting action plan and the continuing involvement during implementation by the private sector working together with government officials on the Coordinating Committee provide a ready forum for policy dialogue. Institutional development and training are built into the project through the establishment of the Investors Services Center and the management training and entrepreneurial development activities.

Technology transfers will be incorporated in many of the new business ventures resulting from the project.

The time is right for AID to help Sri Lanka expand and improve its private sector, since GSL policy gives high priority to private enterprise and AID now considers it as one of its higher priorities. The USAID and the GSL consider that an important role for AID would be to act as a catalyst in improving the overall climate for private investment so that increasing amounts of Sri Lankan and foreign private investment can contribute to Sri Lanka's development.

Several factors lead to the conclusion that the first step in AID assistance must be a sector assessment:

- a comprehensive survey of the private sector potential, including all factors (public and private) that influence realization of the potential and their inter-relationships;
- an inventory of investment opportunities (resources, markets, etc.); and
- an action plan to carry out the recommendations resulting from the assessment.

The most important factor in deciding the first order of priority is that while the GSL has made extensive efforts to make policy changes, provide incentives, establish boards and commissions, etc. to assist the private sector, there are still gaps in their knowledge of all the factors that influence investments and details of all the investment opportunities. Observers in Sri Lanka are generally aware of some constraints to the private sector's achieving its potential, but the seriousness of these constraints, their inter-relationships, and the actions/costs to overcome them have not been closely examined.

Other factors that influenced making this action first priority include: need for comprehensive information to improve coordination among the many ministries and boards directly involved with the private sector; need for an internally consistent investment strategy; and need to avoid conflict or duplication with large amounts of foreign assistance already being provided for the private sector (see Annex J).

The first step is being carried out by a team of U.S. and Sri Lankan experts through a task order issued to A.D. Little in February 1983 under its indefinite quantities contract. Funding is from Project Development & Support funds. The work should be completed by June, 1983.

The second step consists of the various elements of this project as described in the following section.

C. Description of the Project

1. The Goal: The ultimate goal is to increase employment, incomes, and goods and services provided by the private sector which are needed by the people of Sri Lanka (especially in the rural areas) to improve their quality of life.

2. The Purpose: The purpose is to improve the investment climate in Sri Lanka and to increase private investments (both domestic and foreign) in activities that use those resources where comparative advantages exist. Emphasis will be placed on increasing investments in industries that use agricultural based products and produce for export.

3. The Project: The project will include:

a. The establishment of an Investors Service Center: The Center will be established as an independent, self-supporting organization with a board of governors composed of representatives of the private and public sectors. It will serve as a bridge between government policy making and regulating institutions and the private sector in helping to improve private investment. It will work in close collaboration with the GSL investment entities (SCEB, FIAB, Export Development Board, etc.) in carrying out its main function of providing help and assistance to private sector investors, both Sri Lankan and foreign. In this context it will: provide a "one stop shopping" facility for potential investors; develop and maintain a listing of local and foreign firms seeking to expand operations in Sri Lanka; provide referral service on investment opportunities; assist in securing GSL approvals for investment projects; establish a comprehensive business library; and encourage use of the center through seminars, consultancies, and investment promotion activities.

The Center's activities, roles, responsibilities, operational plans and legal identity will be reviewed in detail by the Sri Lankan public and private sector representatives and their consultants. Prior to the disbursement of funds for the operation of the Center, a detailed operational plan will be agreed to among the Sri Lankan public and private sector representatives as well as AID. In addition, this operational plan will explain financial support for the operation of the Center and establish target dates for a fully self-supporting entity.

USAID's objective is for the Center to become fully self-supporting at the earliest possible date. However, during the first years of operation, it is not likely the Center will be able to cover all of its initial capital and operational costs. AID's support will be on a declining phase-out basis with a target of no support beyond two years after the Center is operational (e.g. 80% of first year's costs; 50% of second year's costs).

b. The updating and expansion of management training and entrepreneur development activities: The project will involve the updating of existing management training courses for the benefit of the private sector in the following key subjects: general business management, marketing, production management, and financial management. This assistance has been targeted to specific courses and institutions (Institute of Chartered Accountants, University of Sri Jayawardenapura, University of Colombo, and the Open University) which are readily able to utilize the assistance in on-going programs that have a fairly wide acceptance in the local business community. Similarly, the expansion and upgrading of entrepreneur development efforts have been targeted to those identified institutions (Chamber of Small Industries, Industrial Development Board/All Ceylon Trade Chamber, and National Youth Services Council) whose on-going programs could most readily employ the assistance and contribute directly to encouraging the next generation of entrepreneurs to enter business. One major group

targeted to benefit from these programs are the Sri Lankans returning from the middle eastern countries who possess the skill, capital and an entrepreneurial spirit to strike out on their own.

c. The preparation and promotion of specific pre-feasibility studies and investment profiles on industries where Sri Lanka has a comparative advantage: Some 30 pre-feasibility studies and 70 profiles will be prepared in areas of potential profitability as determined largely by Sri Lankan experts working closely with off shore experts on particular subject areas. It is expected that the first 10 areas that will be analyzed will include: (1) oil seeds and cakes; (2) soya bean processing; (3) wing bean processing; (4) rubber based product production; (5) livestock feeds; (6) coir products; (7) fruit and juice processing; (8) cut flowers; (9) vegetable processing; and (10) poultry production.

The pre-feasibility reports and profiles program will be actively promoted by the service center primarily in Sri Lanka and where appropriate, overseas. The promotion efforts will build upon existing Sri Lanka promotion activities and involve active participation of local and foreign chambers of commerce and the U.S. Department of Commerce Investment Opportunity Program.

d. Selected sector support: It is expected that the sector assessment will identify areas which require further analysis prior to making recommendations to the GSL for policy or procedural reforms or instituting new programs. Such specialized areas could include, but are not limited to: rural industry, markets, agri-business, investment guarantees, industrial energy, etc. In addition, the selected sector support will assess problem areas which may be addressed in a follow on project. Support might also be provided to local IESC activities if IESC should submit a proposal, acceptable to the GSL and USAID, which is consistent with the project's objectives and purpose.

The overall project will be managed by the IECD as advised by the Coordinating Committee, composed of representatives of the Sri Lankan public and private sectors. Members of the committee may also serve on the Board of Governors of the Investment Services Center, thus assuring close coordination between the various elements of the project.

4. End-of-Project Status: At the end of the project we expect the following to have been accomplished:

a. A comprehensive private sector policy and action plan adopted: a major portion of the sector assessment will be the analysis of the policies and administrative regulations-rules-practices that influence private sector investment and operations, together with recommendations for coordinated modifications and expansion of them. A coordinated approach is necessary due to the de-centralized nature of the GSL (about 40 ministries) and the inter-relationship of policies and practices (e.g. decision by Finance to increase export taxes so as to raise more revenues may have adverse effect on exports). The GSL will use the analysis, information and recommendations in the sector assessment to establish a comprehensive private sector

policy and an action plan consisting of the various steps to be taken by the different government and private organizations to translate policy into additional investments. This will be a condition precedent to disbursement.

b. Actions to remove constraints taken: The issuance of a policy statement and action plan will have little impact on investments unless steps are taken to remove or reduce any constraints to investments identified in the sector assessment. Some actions may be made quickly (e.g. changes in administrative procedures and regulations) while others will require considerable time (e.g. legislative changes or expansion of infrastructure facilities). Some may be made by one organization (institutional forms and paperwork) while others may involve several organizations (lending rules and practices). A time table for these steps will be part of the action plan. Since the action plan will not be prepared until some months after the project agreement is signed, the agreement will contain a covenant rather than a condition that the GSL will carry out the action plan.

c. New Investment activities started: It is expected that the aggressive promotion of the pre-feasibility studies and industrial profiles program, together with actions to remove constraints and obstacles to investments will result in at least ten new investments or activities started during the project period. Since investments will be made as a result of voluntary actions by many independent investors, the GSL cannot force investors to put their money in a specified number of enterprises nor guarantee that a stated number of investments will occur as a result of this project. However, the project will be considered successful if during its five years at least ten new investments are made that can be directly attributed to activities of the project.

d. Export of non-traditional products increased: With the emphasis in the sector assessment on identifying resources that have export potential, and a criteria for pre-feasibility studies and profiles being export potential, it is reasonable to expect that some of the new investments that should result from this project will be for export products. Thus export of non-traditional products should increase as a result of these new investments, but it is difficult to predict with any degree of accuracy how much the increase may be since the number and types of new investments cannot be guaranteed or accurately predicted.

e. Time to establish new activities reduced: One of the constraints to investment is the amount of time necessary to obtain all approvals, investment incentives, financing, etc. The effort to obtain the approvals is time consuming and costly while the increased time adds to investment costs due to impact of inflation

on delayed procurement of machinery, buildings, land, etc. The time varies widely from project to project. The sector assessment will be identifying the time, costs, and processes required for new investments and making recommendations for improvements. These improvements should result in a reduction in time needed to establish a new business enterprise.

f. Trained managers and entrepreneurs increase productivity: A major element of the project is the management training and entrepreneurial development programs which are designed to increase the skills of managers and entrepreneurs. Increased productivity as a result of training is real but cannot be easily measured except for people doing repetitious, simple tasks.

5. Conclusion: Improved investment climate should result in more investments in productive and service enterprises; these investments create more jobs; many of the people hired for these new jobs would be the under-employed and unemployed mainly from the rural areas; many of the investments would be for agro-industries; the raw materials for these new plants would come from the agricultural sector, thus providing new markets for the farmers; producing more products locally for domestic consumption should provide more and lower priced goods for the general public, most of whom live in the rural areas.

It is important to note that the project activities should provide a critical element in improving the investment climate which is essential to meeting our overall CDSS goal in the private sector: e.g. by 1988 the private sector will be the principal employer of new entrants to the labor force.

PART III. Cost Estimate and Financial Plan

A. AID Project Budget

The cost estimates reflect: (1) realistic factors for inflation and contingency; (2) realistic cost factors for technical services; and (3) flexibility in allocating resources to meet unfolding events and follow-up on areas of potential benefit identified in the sector assessment and early implementation phase.

This PP inflation factor is shown as a separate line item so there is no question that it has been calculated for all costs. The inflation factor for local costs is affected by the exchange rate which is adjusted periodically to reflect the position of the rupee against the U.S. dollar. This adjustment means that AID would obtain more rupees for its dollars used for local costs, thereby offsetting local inflation to some extent.

USAID's experience is that for a firm, the annual cost for a long term U.S. consultant is about \$150,000, while the monthly cost for a short term consultant is about \$15,000.

The types and amount of technical expertise (U.S. and Sri Lankan) needed for the components will be greatly influenced by the findings and recommendations of the sector assessment. However, the assessment will be completed prior to the conclusion of contracting action. Further, a mid-term evaluation is planned which will analyze the need for any changes in scope following initial project results.

Specific comments on the major budget items follow:

1. Investors Service Center: This provides one U.S. long term advisor to serve as Center advisor and train a Sri Lankan to assume these duties by the end of project. One long term Sri Lankan manager, supported by three local assistant managers and approximately 5 clerical and maintenance staff members, will be employed for the Center. AID will fund a limited amount of office equipment such as a telex to be used jointly with JACC and several typewriters. AID local currency contributions for the Center will be phased out as the Center reaches self sufficiency. AID's target date for self sufficiency will be two years after the Center is completely operational.

2. Management Training and Entrepreneur Development: This includes one long term U.S. advisor and two Sri Lankan managers. Short term services of U.S. and Sri Lankan consultants and training specialists will be provided. In addition the project will finance short courses, specialized participant training, etc.

3. Pre-Feasibility Studies & Investment Profiles: This provides U.S. and Sri Lankan expertise to make the studies. The budget includes clerical and home office support costs for the technical advisors.

4. Investment Promotion: This includes U.S. and Sri Lankan promotion/marketing specialists, plus support to or participation in promotion activities.

5. Selected Sector Support: This is 12 months of U.S. and 34 months of Sri Lankan technical services.

B. Cooperating Country Contribution: The AID grant/loan is just a small part of the total resources being used to promote private sector investment (Sri Lankan and foreign) and to improve the investment climate. Therefore, the Sri Lankan support for the various activities and organizations other than the AID PEPF project is being considered as the cooperating country contributions.

Four GSL organizations are directly involved in the country's total effort: (1) The International Economic Cooperation Division of the Ministry of Finance and Planning, with a staff of 45 and 1982 budget of about \$150,000 is the focal point for coordinating and promoting foreign private investments; (2) the Export Development Board, with a staff of 25 and an annual budget of \$1.25 million, works on private sector development as well as export promotions; (3) the Greater Colombo Economic Commission, with a staff of 30 and 1982 budget of \$3.0 million, runs the Free Trade Zone which has attracted 41 plants already in operation and over one hundred more applications approved; and (4) the Merchant Bank of Sri Lanka, Ltd., (owned by Bank of Ceylon) with staff of 20 and 1982 budget of \$250,000, began operations in the summer of 1982 providing a variety of merchant banking activities.

A number of other organizations in the private sector and government sector also contribute toward this effort and have expressed a desire to participate in this project: the Industrial Development Board, the Federation of Chambers of Commerce and Industry, the Sri Lanka Chamber of Small Industries, the Ceylon Chamber of Commerce, the Institute of Chartered Accountants, plus the various training institutions in the private sector.

A conservative estimate is that at least 20% of the annual budgets for the four GSL institutions described above would be used for activities that directly promote the attainment of the project's objectives and could be considered as the cooperating country's contributions. The approximately \$900,000 per year for four years of the project would total the \$3.6 million contribution shown on the Project Data Sheet.

TABLE 1
Summary Cost Estimate and Financial Plan

Items	A. I. D.		Total
	Foreign Exchange	Local Currency	
	(U.S. \$000)		
<u>GRANT</u>			
Technical Assistance			
- Long Term	510	210	720
- Short Term	790	210	1,000
Participant Training	30	60	90
Minor Equipment Items	75	70	145
Other Direct Costs	145	130	275
	-----	-----	-----
Sub-Total	1,550	680	2,230
Contingency @ 10%	155	70	225
Inflation	385	160	545
	-----	-----	-----
Total	2,090	910	3,000
	-----	-----	-----
<u>LOAN</u>			
Technical Assistance (Short Term)	600	150	750
Contingency @ 10%	60	15	75
Inflation	140	35	175
	-----	-----	-----
Total	800	200	1,000
	=====	=====	=====
Total Grant/Loan	2,890	1,110	4,000
	=====	=====	=====

TABLE 2
AID Disbursements by Year

<u>Items</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Total</u>
	(US \$ 000)				
<u>GRANT</u>					
Technical Assistance					
- Long Term	-	193	305	222	720
- Short Term	-	184	476	340	1,000 ^{1/}
Participant Training	-	-	42	48	90
Minor Equipment Items	-	58	67	20	145
Other Direct Costs	-	95	100	80	275
Sub-Total	0	530	990	710	2,230
Contingency @ 10%	-	53	100	72	225
Inflation	-	57	230	258	545
Total	0	640	1,320	1,040	3,000
<u>LOAN</u>					
Technical Assistance (Short Term)	170	185	200	195	750
Contingency @ 10%	15	20	20	20	75
Inflation	20	20	65	70	175
Total	205	225	285	285	1,000
Total Grant/Loan	205	865	1,605	1,325	4,000

^{1/} Includes \$25,000 for project evaluation.

TABLE 3
A.I.D. BUDGET COMPONENTS

Components	Foreign		Local	
	P.M.	AME.	P.M.	AME.
<u>GRANT</u>	(US\$000)		(US\$000)	
1. Investors Service Center				
Technical Assistance				
- Long Term	30	360	120	120
- Short Term (Evaluation)	2	25	-	-
Office Rental/Utilities		-		60
Office equipment		-		35
Library Publication		25		-
Transport		15		-
		---		---
Total		425		215
		---		---
2. Management Training & Entrepreneur Development				
Technical Assistance				
- Long Term	12	150	60	90
- Short Term	36	540	108	137
20 Short Courses/Seminars		-		60
9 Training months special courses		30		-
In-plant apprenticeships		-		15
Publication & training aids		40		15
Minor Equipment Items		20		20
		---		---
Total		780		337
		---		---
3. Investment Promotion				
Technical Assistance (Short Term)	5	75	15	23
10 Promotion Missions, 3 Trade Fairs, and 7 trade association meetings		100		20
5 Local Exhibitions				25
Mailings, Advertising & Publications		20		10
		---		---
		195		78
		---		---
4. Selected Sector Support				
Technical Assistance (Short Term)	1	150	34	50
Totals (Components 1-4)				
		1,550		680
Contingency		155		70
Inflation		385		160
		---		---
Total Grant		2,090		910
		====		====
<u>LOAN</u>				
5. Pre-Feasibility Studies & Investment Profiles				
Technical Assistance (Short Term)				
- Pre-Feasibility Studies	35	525	125	100
- Investment Profiles	5	75	60	50
		---		---
Total		600		150
Contingency		60		15
Inflation		140		35
		---		---
Total Loan		800		200

PART IV - The Implementation Plan

A. Implementing Agency

The International Economic Cooperation Division (IECD) of the Ministry of Finance and Planning will be the lead GSL agency to manage the project activities. The coordinating committee with broad representation from the private sector in Sri Lanka will advise and assist the IECD in all activities. Since some Sri Lankan members of the coordinating committee actively participated in the design of the project, their continued involvement in implementation assures continuity between the design and implementation actions. Other GSL agencies as well as private sector institutions and companies will participate as appropriate. The IECD also functions as the FIAC and has demonstrated its effectiveness in promoting/approving 211 new investments totaling \$191 million during 1975-81. The GSL has determined that the IECD is the most appropriate organization to manage this project.

B. Procurement Procedures

1. General: IECD will contract with a U.S. institution, preferably in joint venture with a Sri Lankan firm, to implement most aspects of the project. The contractor may sub-contract with local institutions for some activities. The contractor's budget will include funds to hire all supporting staff, rent office space for the center, and buy office equipment and vehicles needed to be self-sufficient. All commodities, other than those bought for the Investors Service Center and the training institutions, will become the property of the Ministry of Finance & Planning (MOFP) after the contract has ended.

Outside this main contract, and before it is executed, USAID or MOFP may contract with U.S. and/or Sri Lankan consultants to make a few pre-feasibility studies and profiles of those activities for which Sri Lanka obviously has a comparative advantage.

2. Investors Service Center: Contractor will assist the Sri Lankans to establish the Center and help with its initial operations. The chief of party will help with the procurement of office equipment and establishment of a business reference library. The Center will be governed by a board made up of public and private sector representatives.

3. Management Training & Entrepreneur Development: The Contractor will provide needed technical experts and materials to upgrade and expand local business management courses and entrepreneur development programs at identified institutions.

4. Pre-feasibility Studies and Investment Profiles: The Contractor will provide the foreign and local consultants to carry out the pre-feasibility and investment profiles to be produced over

the five year period. The contractor will arrange for the publication of these studies and distribution under the following element.

5. Investment Promotion: The Contractor in collaboration with the Coordinating Committee will recommend a strategy to promote the studies program with investors. The strategy may include investment missions, specialized seminars, marketing firms and local representatives or a mix of these in preparing the best promotional strategy.

6. Selected Sector Support: These funds would be used for other agreed upon purposes in support of the projects objectives which are identified in the sector assessment.

C. USAID Responsibilities:

The USAID Office of Project Development and Special Programs will be responsible for project implementation and monitoring of the AID inputs. The assigned project officer will be assisted by other Mission personnel as required. The officer will closely monitor the performance and participate as an observer in the meetings of the Sri Lankan Coordinating Committee.

D. Implementation Schedule:

1	Project Paper Submitted to AID/W	1/83
2	Sector Assessment Commences	2/83
3	Congressional Notification Sent/Expires	6/83
4	Project Authorized by AID/W -	6/83
5	Sector Assessment Completed	7/83
6	Project Agreement Signed	7/83
7	Implementation Letter No. 1 Issued	8/83
8	RFP Issued for Consulting Services	10/83
9	Contracts (IQC or PSC) for initial pre-feasibility studies	10/83
10	Proposals Received for Consulting Services	12/83
11	GSL adopts Action Plan	12/83
12	Charter or decree issued to give legal status to Investors Service Center	2/84
13	Consultant Selected/Notified	2/84
14	Initial Pre-feasibility Studies Completed	3/84
15	Contract Executed for Consultant	5/84
16	Consultant Begins Work	6/84
17	Consultant Submits Work Plan for Implementing Project	8/84
18	In-depth Evaluation of Project Impact	8/85
19	Consultant Revised Project Work Plan	10/85
20	Project Assistance Completion Date	7/88

PART V. SUMMARY OF ANALYSISA. Technical Analysis

1. Introduction: The technical analysis briefly describes each component and how it can be carried out with the stated resources. Since the level of effort and resources needed for each component will depend greatly on the findings of the sector assessment, flexibility for implementation must be built into this project. The design is made even more difficult by the relative absence of AID from this area of development for over a decade. The project addresses specific constraints that have been identified with the active participation of the local public and private sectors. While appearing broad in scope, the proposed assistance is targeted to meet specific needs that will yield the greatest return.

The U.S. contractor will be directly responsible to the IHCD, but be responsive to suggestions and advice from the Coordinating Committee and USAID. Other than the limited number of pre-feasibility studies that might be done under other contractual arrangements (IQC, PSC, etc.) prior to the contractor's commencement of work, the contractor will provide: (a) the U.S. specialists and experts; (b) the Sri Lankan experts and specialists through joint venture or sub-contract with a Sri Lankan firm, direct hire or direct contracting (or combination thereof); (c) the specialized assistance through contracts with Sri Lankan organizations; (d) its office space and support staff in the Center so as to be administratively self-sufficient; (e) arrangements for all training, courses/seminars and trade/investment promotion missions to U.S. and elsewhere; and (f) commodities for the project through its own staff or sub-contract with a procurement agent.

The provision of the components over a five year period will require a high degree of coordination — both in Sri Lanka and in the United States — so all the elements contribute harmoniously to achieving the project purpose. This coordination by the Contractor is also needed to reduce the administrative burden on the GSL and USAID.

2. Investors Service Center: The Center, to be established early in the project, is to be a "one stop shopping" facility for prospective investors. The 1982 version of this PP envisioned the center as being only a possibility by the end of the project. Subsequent discussions by involved parties led to the conclusion that the Center is needed much sooner and should be one of the first priorities of the project. However, there hasn't been sufficient time to work out details such as its legal status, composition of governing body, finances, etc. Therefore, a condition precedent will be its legal formation.

The U.S. advisor to the Center will also function as the

chief-of-party for the contractor for the other elements of the project. A Sri Lankan center manager will be employed and the two will provide the coordination of project activities that is so vital to attainment of the project's objectives. They in turn will be supported by three assistant managers and the needed clerical and administrative staff. The Center will form the hub of project activities with its staff supported by the contractor's home office. The scheduling and implementation of project activities will be one of their main responsibilities.

The Center, in supporting potential investors, will develop and maintain a listing of local and foreign firms seeking to expand operations in Sri Lanka, provide referral service to investors covering investment opportunities, assist in securing GSL approvals for investment projects, and establish a comprehensive business library and encourage use of the Center through seminars, consultancies, and investment promotion activities. The Center will also provide support for the U.S./Sri Lankan Joint Agricultural Consultative Committee's efforts to stimulate joint agro-industry investments. It might be necessary for the AID grant to provide a major portion of the initial operating expenses and start up investment costs until the Center demonstrates its value and becomes a self sustaining institution based on a mix of fees charged for services, outside private sector contributions, and participation by the various chambers of commerce.

Center Staffing	Person Months	
	U.S.	Sri Lanka
Center Advisor	30	
Center Manager		30
Assistant Manager Studies		30
Assistant Manager Promotion		30
Assistant Manager Administration		30
Total	30	120

3. Management Training & Entrepreneur Development: The training institutions are analyzed in some detail in Annex B. These two key components will be developed and implemented through

a competitively placed host country contract with a recognized business training organization. The U.S. advisor will arrive early in the project to develop with the Sri Lankan experts a detailed time phased work plan for the specific technical assistance required by the selected institutions. Prior to providing any significant amount of short-term training assistance, the detailed work plan will first be completed and approved by the Coordinating Committee, GSL and USAID.

The work in management training will focus on upgrading and

expanding specific courses in general business management, marketing, production management, and financial management at four main institutions (Institute of Chartered Accountants, University of Sri Jayawardenapura, University of Colombo, and the Open University).

The Institute of Chartered Accountants offers diploma programs in business and finance as well as a special Management Trainers Development Program. The University of Sri Jayawardenapura offers a range of two and four year business oriented degree programs including a Masters Program in Business Administration (MBA). The University of Colombo offers a one year diploma course in business administration and is starting a MBA program. The Open University offers a practical course in business management on a correspondence basis. These institutions were selected in collaboration with the Coordinating Committee due to their wide appeal in serving a good cross section of the business community (i.e., student, entrepreneurs, to established businessmen). It should be noted that instructors teaching in one institution can also be found teaching in other institutions. Thus as courses are upgraded for one institution, the others will also benefit.

Aid for entrepreneur development will expand and upgrade the existing efforts of the (a) the entrepreneur program of the Chamber of Small Industries, (b) the Industrial Development Board program tailored for the needs of the All Ceylon Trade Chamber, and (c) the Junior Achievement activities of the National Youth Services Council.

The Chamber of Small Industries with a membership of over 200 businessmen, has developed a program to support the next generation of entrepreneurs to enter productive industries including agro based activities. The Industrial Development Board offers an island-wide training program for businesses which once modified would serve the needs of the All Ceylon Trade Chamber, whose members make up the majority of small town merchants who are so vital to the expansion of agricultural production efforts. The National Youth Services Council works with the youth of Sri Lanka in fostering private enterprise and entrepreneurial objectives. These institutions were selected in collaboration with the Coordinating Committee due to their broad appeal and apparent high returns that could be expected from our assistance.

Besides the technical assistance staffing detailed below, the contractor will arrange: 20 short courses and seminars to test new course materials, 9 person months of participant training, in-plant apprenticeships, and procurement of publications, training aids, and minor equipment items.

The magnitude of inputs and actions needed by the institutions before they can meet Sri Lanka's business training needs are so great that this level of assistance represents only the initial stage.

Training & Entrepreneur Staffing	Person Months	
	U.S.	Sri Lankan
Mgt. Training & Entrepreneur Dev.	12	
Management Trainer		30
Entrepreneur Developer		30
Business Management	4	12
Marketing	8	24
Production Management	6	18
Financial Management	4	12
Entrepreneur Selection	4	12
Entrepreneur Training	6	18
Junior Achievement	4	12
	---	---
Total	48	168
	==	==

4. Pre-feasibility Studies and Investment Profiles: The design anticipates that approximately 30 pre-feasibility studies and 70 investment profiles should be prepared, but this number could vary as a result of the sector assessment and the complexity of the individual studies and profiles. The effort is so structured that no duplication of effort will occur between the assessment and project activities. The assessment will concentrate analysis on sub-sector (eg. rubber, coconut, graphite) and only identifying the particular industries (e.g. rubber tires, coir carpeting, graphite fishing poles) that should be considered for investments. The pre-feasibility studies will look at a particular industry and determine the technical, economic, and financial soundness of that industry for potential investment.

The Center Staff, with major support from the contractor's home office, will secure and manage the consultant teams that will produce the studies and profiles. Each team will have a team leader responsible for each study coordination with the interested potential investor and preparation of the findings and recommendation. Through the involvement of the Sri Lankan technical consultants, as well as the staff at the Center, it is envisioned that the practical "hands-on" experience gained in preparing the studies will enable Sri Lanka to develop its own capabilities in this field.

Studies & Profiles Staffing:	Person Months	
	U.S.	Sri Lanka
Agriculture	12	60
Fisheries	3	15
Minerals	4	16
Livestock	2	8

Marketing	4	16
Industrial Engineering	6	24
Financial	3	14
Other Specialists	6	30
	—	—
Total	40	185
	==	==

5. Investment Promotion: The Investors Service Center, with help from the Contractor's Chief of Party and the home office, will bring the investment opportunities studies and profiles program to the attention of local and foreign investors. These efforts will include providing support to; 10 promotion missions; 3 trade fairs, and 7 trade association meetings. In addition, 5 local industrial exhibitions will be supported to raise awareness as to the local industrial capacities and range of products produced in Sri Lanka. The efforts will call upon support from local chambers of commerce, U.S. Department of Commerce Investment Opportunity Program, and other existing means of reaching potential investors with the studies and profiles. Wherever possible these investment promotion activities will also promote export of Sri Lankan products.

A minimal amount of specialized technical assistance for trade and investment promotion is included to overcome any unforeseen marketing problems.

Sri Lanka already has a major promotion effort underway and this project aims to augment their efforts in this area and; working with potential investors to provide the necessary hard data on investment opportunities.

Promotion Staffing:	Person Months	
	U.S.	Sri Lankan
Promotion & Marketing Specialists	5	15
	==	==

6. Selected Sector Support: This provides the minimal amount of flexibility required to enable a timely response to findings and recommendations of the sector assessment that are not already being addressed by this project but which contribute toward obtaining the objectives of the project.

One area where some additional in-depth analysis may be warranted is the rural financial markets (both formal and informal). Some other areas where specialized assistance or studies may be needed include product standards (establishment, testing and enforcement of standards), tax policies, and energy conservation in industrial processes. However, the full scope of such studies and assistance as well as balancing their priorities awaits the completion of the sector assessment. Accordingly, the following level of technical assistance is only an estimate of

additional short term needs of the sector that may be identified.

	Person Months	
	U.S.	Sri Lankan
Specialized Technical Assistance	12	34
B. <u>Administrative Analysis</u>	=	=

Four groups or organizations are involved with the implementation of this project: (1) the GSL mainly through the International Economic Cooperation Division of the Ministry of Finance and Planning; (2) the Sri Lankan private sector; firstly through the Coordinating Committee; secondly, through sub-contracts with various entities to provide services; and thirdly, through the private sector organizations who are the recipients of the project inputs; (3) the contractor through its team of specialists (U.S. and local) in Sri Lanka; and (4) AID, through its assigned project officer as supported by appropriate members of USAID. The inter-relationship of these groups is shown on the attached chart. The administrative feasibility of the project is described below.

1. The GSL: Since the GSL policy requires all bilateral assistance be provided to Sri Lanka through arrangements and agreements with the GSL, AID must sign the project agreement with the MDP and implement the project through the GSL-designated ministry. As there are a large number of ministries involved with the private sector but no one ministry assigned overall responsibility or focal point, the GSL decided that the project could best be implemented through the office responsible for foreign private investments: the IECD.

The IECD, with a 1982 budget of Rs.3 million (US \$150,000) and staff of 45 people, is charged with coordinating and promoting foreign private investment in Sri Lanka. The IECD also is the home for the Foreign Investment Advisory Committee, which includes members from other ministries.

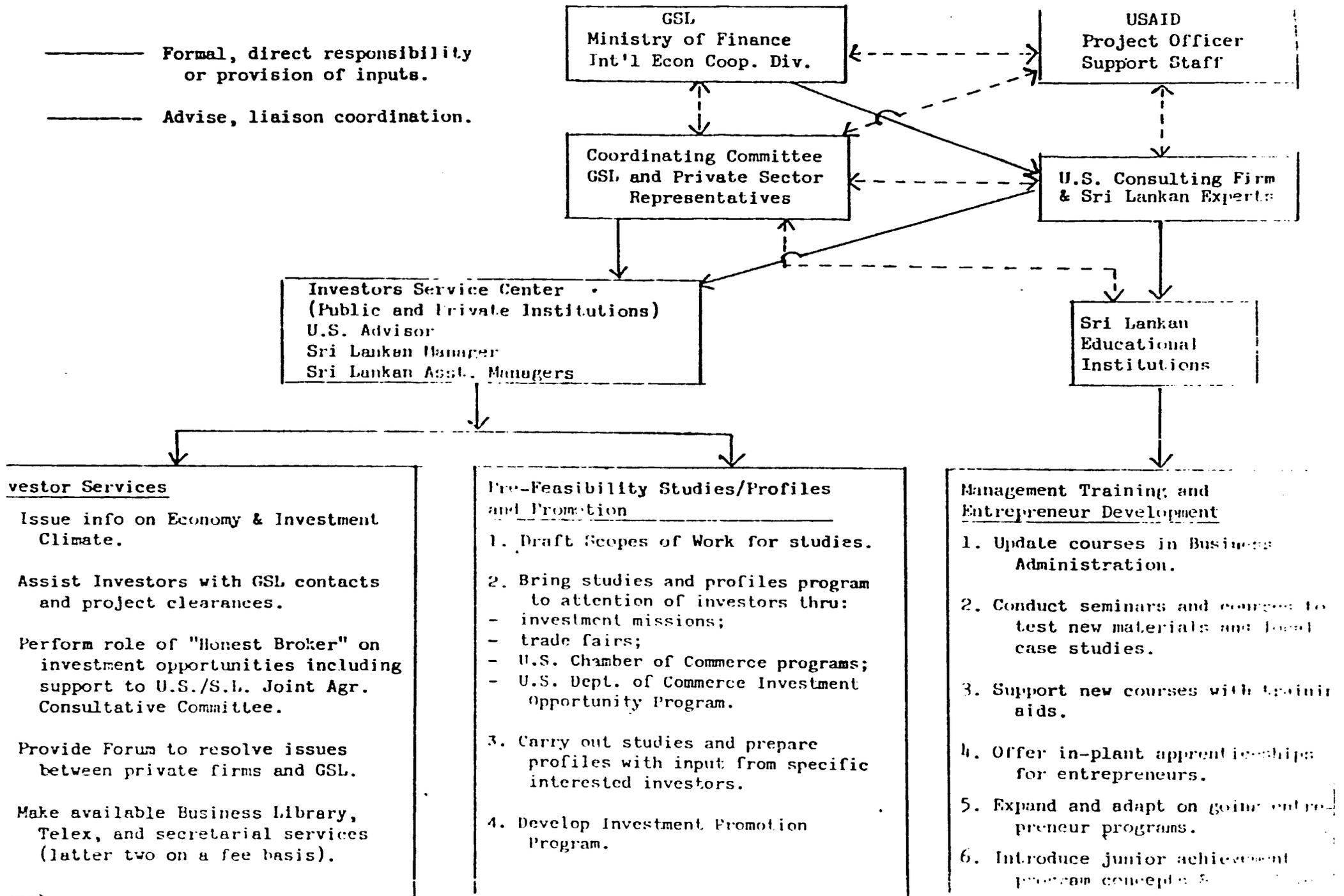
The Director of IECD, Mr. w.S. Nanayakkara, a senior career government official is also a member of the Foreign Investment Advisory Committee.

Many ministries in the GSL are directly involved in private investment and production, including Textile Industries, Food and Cooperatives, Industries and Scientific Affairs, Mahaweli Development, Trade and Shipping, Fisheries, Rural Industrial Development, Regional Development, and Plantation Industries. Other ministries having a direct impact on investment and production include: Power and Energy; Transport; Local Government; Housing and Construction; Rural Development; Lands and Land Development; Regional Development; and Finance and Planning.

IMPLEMENTATION ARRANGEMENTS

———— Formal, direct responsibility or provision of inputs.

----- Advise, liaison coordination.



Investor Services

Issue info on Economy & Investment Climate.

Assist Investors with GSL contacts and project clearances.

Perform role of "Honest Broker" on investment opportunities including support to U.S./S.L. Joint Agr. Consultative Committee.

Provide Forum to resolve issues between private firms and GSL.

Make available Business Library, Telex, and secretarial services (latter two on a fee basis).

Pre-Feasibility Studies/Profiles and Promotion

1. Draft Scopes of Work for studies.
2. Bring studies and profiles program to attention of investors thru:
 - investment missions;
 - trade fairs;
 - U.S. Chamber of Commerce programs;
 - U.S. Dept. of Commerce Investment Opportunity Program.
3. Carry out studies and prepare profiles with input from specific interested investors.
4. Develop Investment Promotion Program.

Management Training and Entrepreneur Development

1. Update courses in Business Administration.
2. Conduct seminars and courses to test new materials and local case studies.
3. Support new courses with training aids.
4. Offer in-plant apprenticeships for entrepreneurs.
5. Expand and adapt on going entrepreneur programs.
6. Introduce junior achievement program concepts.

2. Sri Lanka Private Sector: The Coordinating Committee that assisted in the preparation of this project (and will be carried over into the implementation stage) includes representatives from the Federation of Chamber of Commerce and Industry, private businesses, the Institute of Chartered Accountants, and the Sri Lanka Chamber of Small Industries. The IECO has expanded the Coordinating Committee to include representatives from other organizations directly involved with investments, promotion, and training.

A number of Sri Lankans will be directly employed as consultants and experts for the project's activities. Additional involvement of the private sector will occur through sub-contracts to provide inputs (in-country seminars, training courses, etc.) and through participation and cooperation in such activities as establishment of the Investors Service Center, improved teaching of business management courses, etc. Some organizations will also be direct recipients of assistance to help them expand and improve their capacities (e.g., technical assistance and visual aids to improve teaching of business related subjects).

The PP anticipates about 522 months of professional services from Sri Lankans in the private sector who will work directly for, and be paid from the project. This is an indication of the confidence the project designers have in the quality and quantity of expertise in the Sri Lankan private sector.

3. The Contractor: The breadth and magnitude of services that the contractor must provide are large, but not beyond the capability of large U.S. consulting firms, although the contractor may have to go outside its organization for some specialists. The size of the contract and the challenging nature of the services to be provided will attract those U.S. firms of sufficient size and experience to provide the services. Therefore, no difficulties are anticipated in contracting with a well-qualified firm.

4. AID: Within the USAID mission in Colombo, the Office of Project Development and Special Programs will be responsible for AID's concerns and actions. The assigned project officer will be supported by the other mission staff as needed (engineer, legal, controller, etc.) in the usual manner. At this time, the USAID project officer will be one of the assistant project development officers. The scope of this project is such that the assigned project officer will have only limited other duties.

C. Economic Analysis

The rationale underlying this project's approach to expansion of the role of the private sector in Sri Lanka is based on the premise that money spent on improving the institutional framework within which the private sector operates and enhancing entrepreneurial capabilities/managerial skills will result in more growth of the private sector than the same money invested in a specific industry or company.

The implicit assumption is that identification of opportunities and removal of identified constraints will result in increased and more efficient private sector investment. Increased investment should result in increased production, employment, and incomes. It is impossible to forecast what level of additional investment would result from these projects as that would depend upon variables such as (a) attractiveness of identified opportunities; (b) the nature, magnitude, and severity of existing constraints and the possibility of removing or reducing them; and (c) the international economic situation.

It is feasible, however, to establish an order-of-magnitude of what could be possible. If the above assumption is correct then it is reasonable to attribute at least a portion of future increases in investment to this project. The total private sector investment for the four year period 1978-81 was about \$1.5 billion. Using this same level in the future rather than trying to guess future levels (the GSL Investment Plan-projects annual private investment for 1982-86 to be about 253% higher than 1978-81) and assuming that the level of investments increased only 1% (extremely conservative rate) as a result of this project, the additional domestic private investment during the four year period of this project would be about \$15 million.

Another approach would be to assume that only 25% of the \$56 million lower level of investment for a variety of investment opportunities listed in the Kathar Report (Annex I) should materialize. This would mean about \$14 million of new investments. Either result would be an excellent return for the \$4 million AID assistance.

The IBRD's experience with its first Small and Medium Industries Project was that one new job was created for about every \$1,600 of investment. However, the average size loan was only \$6,800 indicating loans to very small enterprises are very labor intensive. The average capital investment per worker in the state owned enterprises was \$4,055 in 1980 while the average cost per job for all new projects approved by the GCEC (1979-1981) was \$5,450. Assuming an average cost per new job of \$5,000, \$15 million of additional investments would mean about 3,000 new jobs. If one uses the experience of the IBRD SMI project of \$1,600 per job, the

\$15 million would create about 9,400 new jobs.

The incremental capital output ratio (ICOR) is the ratio of new investment to changes in output. If the ICOR can be taken as roughly constant over a particular period, then multiplying it by the expected change in net investment gives the expected output to be generated by that investment. According to the World Bank, the ICOR for the Sri Lankan economy has been estimated at 3.7 and for industry at 3.0. The ICOR for registered small and medium industries is estimated at 2, while the ICOR for unregistered SMEs is 0.5. Thus, the project's contribution to the GDP can be measured by the appropriate ICOR. Using the ICOR of 2, the \$15 million of new investments would add \$30 million annually to the GDP. The potential leverage of the AID assistance is obviously well worth the investment.

Another way of examining the economic benefits is to consider the alternatives. The first alternative is always to do nothing. The Mission feels, however, that by doing nothing, AID would be missing an excellent opportunity. The Sri Lanka private sector has much going for it - strong government support service organizations such as GCEC, FIAC, LIAC, etc.; inexpensive and skilled labor supply; diverse natural resources - but its growth has yet to reach its potential. It is, therefore, appropriate at this time to assist in identifying opportunities and removing constraints to the sector's growth.

The second alternative would be to invest \$4 million directly in the private sector as loans or equity. This is viewed as undesirable for the following reasons: (1) AID's \$4 million would have very little impact when compared to the total private sector investment; (2) direct investment would not have nearly the same leverage; and (3) other donor programs are providing significant amounts of credit for investments.

The third alternative would be a different mix of the proposed project elements. The proposed mix represents the best judgement of those involved in the project design. However, flexibility has been built into the design to allow for adjustments among project elements as may later be indicated by the sector assessment and experience.

D. Social Analysis

1. Conclusions: The social feasibility of this project (its acceptance by Sri Lankans and distribution of benefits) is demonstrated in the August 1982 report prepared by Research and Consultancy Services (Private) Ltd. of Colombo (Annex F). The potential distribution of benefits was described in somewhat more detail in Annex P of the Robert R. Nathan Report (not included in PP).

These studies and this P indicate that: (a) Sri Lanka's support private sector investment in productive activities; (b) people in the rural areas are most likely to ultimately benefit from the project; (c) creation of jobs (up to 9,400) and increased incomes are two of the most important needs of Sri Lanka; (d) this project should result in more jobs and higher incomes; (e) Sri Lankan private sector participated in the project design through its Coordinating Committee; (f) Sri Lankan private sector will participate actively in implementation in a wide variety of ways; (g) the project's activities are feasible within the socio-cultural environment; (h) the project should have a substantial impact on the country; and (i) there are no issues that will seriously impede the social soundness of the project.

2. Socio-Cultural Context: Since 1977, Sri Lanka has promoted private enterprise through a policy package of "economic liberalization" designed to attract local and foreign private sector participation in its development. The private sector has responded positively to these stimuli as indicated by the table below on the registration of new companies in Sri Lanka:

1976	264 new companies
1977	319
1978	624
1979	796
1980	966
1981	1,030

Past experiences in Sri Lanka and elsewhere show that in the early stages of modern industrial development, entrepreneurial effort tends to be confined to narrow paths. A major safeguard against risk is emulation of the pioneer. This often results in the growth of excess capacity in a few industries and an under-utilization of the overall industrial potential of the country. The frequent experience in Sri Lanka is that once a particular industry is established by pioneer entrepreneurs as a source of financial profit, its adoption by others occurs with remarkable rapidity. Private road transport services beginning in 1980 and industries that are ancillary to tourism are illustrations of this phenomenon. Another example involves the January 1981 highly successful opening of a Chinese restaurant in Colombo (the only quality restaurant outside the major hotels) which was quickly followed by about a dozen new restaurants featuring foreign cuisines. Several of the new restaurants just as quickly went out of business.

3. Beneficiaries: The impediments to private investment which the PEPP seeks to remove are more formidable in the rural areas than in the urban areas. For example, the Colombo area accounts for 75% of the registered industrial units and 97% of the gross value of industrial production in Sri Lanka. Since the sector

assessment will emphasize investments that use local materials and create the most jobs, investment opportunities are more likely to be in the rural areas where the raw materials, agricultural production, and most unemployed people are located. If this pattern, in fact, should occur there should be a more equal distribution of income resulting from the project because creation of jobs for those who are not now working full time for wages would help a very poor class — the unemployed of the rural areas. With project emphasis on agro-industries, it can be shown that as agro processing and marketing industries are created, they in turn provide a stable demand to farmers for increased production as well as alternative sources of employment. In agro-industries, it is generally advisable to locate processing facilities close to the source of crop inputs. This would increase the economic impact on the rural farm community.

The data in Table 2 of the social analysis (Annex F) illustrate the urgency for programs to create new jobs while economizing on relatively scarce resources such as capital and foreign exchange. Since the private sector provides about 58% of the jobs in Sri Lanka, it must expand rapidly if the country is to substantially reduce its high unemployment rate of 15%. This project is designed to promote investments that lead to more jobs being created, thus a major portion of the benefits should flow to the unemployed and under-employed. As indicated in the economic analysis up to 9,400 new jobs may be created by this project.

4. Participation: The private sector participated in the project design through its representatives on the Coordinating Committee. Their participation will continue also in the implementation stage through their representatives on the Coordinating Committee (see Implementation Plan). Individual investors would participate through their use of pre-feasibility studies, industrial profiles, training, the Investors Service Center, and other services to be provided by the project. Workers and consumers would participate indirectly through the new jobs and new products made available for local consumption.

5. Socio-Cultural Feasibility: That the people, in their roles of workers, consumers and investors, readily accepted new developments and established new companies at record levels is perhaps the most obvious indicator of the absence of a fundamental conflict between private enterprise and the ethical norms and socio-cultural values of Sri Lankan society. For example, there is no evidence of any popular "consumer resistance" to the increasingly important role being played by the private sector in an area of the economy which was once the exclusive domain of the Government sector (public mass transportation).

Apart from the evidence that points to an absence of conflict between private enterprise and the prevailing socio-cultural ethos of Sri Lanka, the stimulation of private enterprise finds further

justification from the country's past experiences with attempts at promoting cooperative and communal enterprise in agriculture and industry. In general, these collective ventures failed primarily due to their failure to mobilize popular enthusiasm and support for their ideals. In addition, the country has been remarkably free from industrial disputes and agrarian unrest during the recent years of expanded private sector activity despite enhanced freedoms granted to political opposition and high inflation.

The components of the PERP focus on certain key areas of supportive services which have hitherto remained inadequate or ineffective in providing the required incentives to prospective investors. Thus, the project also is complementary to the current national policy and strategies of industrial development.

6. Impact: Actual job creation from new investments depends on voluntary decisions made by different groups of investors regarding location of plants, skills and numbers to be hired, etc. The nature of these decisions cannot be accurately predicted at this time so a precise identification of the beneficiaries and the magnitude of benefits that should go to them is difficult.

However the production and promotion of pre-feasibility studies and industrial profiles about new opportunities for private investment, together with efforts to remove constraints from investments and provide incentives to invest in new ventures, should result in more pioneer entrepreneurs who start enterprises in areas now being neglected.

7. Issues: A critical issue for the success of the project is whether the political stability that has characterized the recent past will continue into the future. One can only observe that the present constitution contains safeguards against major changes in the political system as well as safeguards for foreign investment.

Further the recent reelection of the UNP government for an additional six years provides confidence that there will be continuity in the liberalized market oriented policies of this government.

A second issue that will greatly influence the size and distribution of benefits is whether investors will start up new ventures outside the Colombo area. Most of the investors, skilled workers, capital and physical infrastructure are located around Colombo. Therefore, it is only natural that investors seek to start new ventures in the Colombo area. However, the GSL, through its decision making functions to grant or withhold approvals and incentives, will, as well as this project's rural agricultural emphasis, encourage new ventures in the rural areas of Sri Lanka. These factors will be taken into consideration in the sector assessment and the recommendations on placing incentives on investment opportunities which yield the best returns (employment,

location, etc..

E. Environmental Concerns

The approval of the PID by AID/W included the finding that this project does not require an Initial Environmental Examination, an Environmental Assessment or an Environmental Impact Statement per paragraph 216.2(c) of AID Regulation 16. The principal components of this project (studies, TA, training) will have no significant effect on the natural or physical environment. The pre-feasibility studies will include possible impacts on the natural and physical environment and comply with Sri Lankan laws, rules and concerns including any that might be issued by the recently established Central Environmental Authority.

PART VI. EVALUATION METHODOLOGY

A. Methodology for Collection of Baseline Data

The evaluation will combine several different methodologies to evaluate the different components. The questions to be answered by the evaluation require four kinds of information:

1. Initially, baseline data on manufacturing enterprises and on new enterprise development in Sri Lanka followed by the corresponding updating of this information annually for the life of the project;

2. Data on the conditions and changes of businesses served by the various components of the project and by a "control group" of similar businesses not assisted;

3. Information on the implementation of complementary services by institutions involved in the operation of the project;

4. Expenditures under the AID-supported project as a whole and by its various project components.

Usually national data do not provide the basis for attribution on any large-scale movements or other changes in the economy to relatively modest projects such as the PEPP. Conversely, data on a particular group of project participants usually cannot be expanded into estimates of national parameters as a whole. However, it would be possible to provide the first two kinds of information, if the data collection is coordinated with the Annual Survey of Approved Industries conducted by the Ministry of Industry and Scientific Affairs.

This survey is an ongoing government effort which collects data on the numbers and types of industries, their production capacities and outputs, problems faced by these industries and their future investment plans. A full scale survey was carried out in 1977 and 1980 and the Ministry plans to conduct another full scale survey in early 1983, using 1982 as the base year. A supplemental sample survey of unregistered (and basically small) industries will have to be carried out on firms too small to be included in the Survey of Approved Industries.

The collection of the baseline data on industries will be the responsibility of the sector assessment. Coordination of annual follow-up surveys will be the responsibility of the consultant. Collection of baseline data for participants in the training courses will be carried out by the consultant also.

In 1985, the Ministry will again conduct a full scale Survey of Approved Industries after which statistical analysis will be used to ascertain whether any benefits in sales and employment can

be attributed to the inputs provided by the PEPP. In effect, the use of statistical techniques such as analysis of variance and regression analysis will enable the national survey to be used as the statistical "control group". In addition, the national survey will provide information on the changes in the private sector as a whole, without attribution of the changes particular to the PEPP.

While the evaluation design provides for analysis of the effects of the project's direct services to new entrepreneurs and businesses, the effects of the sector assessment, pre-feasibility studies, and the other components will not be determined statistically. Rather, an independent evaluator will have to make qualitative judgements on these components based on the indicators of achievement of objectives and other information provided during project implementation, interviews with persons knowledgeable about the accomplishments of these components, review of the national data on private enterprise development referred to above, and on other national economic data.

E. Administrative Responsibilities

The assessment team will prepare the baseline data for the private sector. The consultant will establish record keeping systems that will allow future evaluations to locate all past participants and/or users of the project inputs.

C. Investors Service Center

In addition to the baseline data information gathering planned as indicated above, and regular monitoring activities, a review of the operations of the ISC will take place mid-way in the project approximately 2 years after the center is operational. This review which will be part of the regularly scheduled evaluation, will assess among other things a) the achievements of the ISC; b) review the activities and programs of the center to determine their responsiveness to the private sector; and c) assess the willingness of the private sector to assume its financial support.

D. Schedule and Timing

Since this is a five-year project with most of the implementation being over a four year period, the only formal evaluation will be conducted in August 1985. This would be an in depth evaluation conducted by GSL, USAID and an outside contractor. The evaluation would require statistical services to analyze the impacts of the project on the development of the private sector as outlined above. An end-of-project evaluation would be made after April, 1987.

In addition, there will be annual informal evaluations or reviews to: (1) make recommendations for any improvements in project implementation; (2) provide information for the development of a follow-on project; and (3) update the assessment as needed.

PART VII. CONDITIONS AND COVENANTS:

In addition to the usual conditions concerning legal opinion and authorized representatives, the following special conditions and covenants will be included in negotiating the provisions of the project agreement;

A. Condition Precedent to Initial Disbursement:

The Cooperating Country will appoint a Coordinating Committee to advise and assist in the implementation of project activities. The Committee may be composed of representatives from the appropriate organizations of the private sector and the Government.

B. Additional Conditions Precedent:

To Initial Disbursement for Pre-Feasibility Studies and Investment Profiles:

The Cooperating Country will establish criteria, satisfactory to A.I.D., for selection of potential investment opportunities for which pre-feasibility studies and investment profiles are to be undertaken. The criteria will take into account such factors as: (a) identification of potential investors to participate in and/or share the costs of the studies; (b) the use of local raw materials, especially agricultural products; (c) export potential; (d) ratio of labor to capital; and (e) introduction of appropriate technology.

To Initial Disbursement for Project Activities other than pre-feasibility studies, investment profiles and technical assistance for creation of an Investors Service Center.

1. The Cooperating Country will adopt an Action Plan, satisfactory to A.I.D., for the development of the private sector based upon the recommendations contained in the sector assessment.

2. The Cooperating Country will take all necessary actions (i.e. legal and administrative) to bring into existence and promote an investors service center. The role and function, staffing and level and type of financial and administrative support that are to be provided the center by the private and public sectors will be identified to the satisfaction of A.I.D.

C. Covenants:

The Cooperating Country covenants that all necessary actions will be taken for the timely implementation of the Action Plan.

COST OF THE PRE-FEASIBILITY STUDIES. THOSE EXPECTED
EVENTUALLY TO BENEFIT FROM ANY RESULTING INVESTMENT
COULD CONTRIBUTE FACILITIES, STAFF OR FUNDS, AND/OR
MIGHT BE EXPECTED TO SHARE COSTS OF STUDIES THAT ARE
UTILIZED--ALONG THE LINES OF THE COST-SHARING
PRACTISED BY OPIC, TDP AND PRE.

5. APAC RECOGNIZES THAT PARASTATALS ACCOUNT FOR A
LARGE SEGMENT OF THE ECONOMY IN SRI LANKA, THAT
BY-AND-LARGE THEY ARE INEFFICIENT, THAT THE GSL IS
COGNIZANT OF THE PROBLEM AND ANXIOUS TO INCREASE
THEIR PRODUCTIVITY. UNDER THE CIRCUMSTANCES, AID
SHOULD BE PREPARED TO PARTICIPATE IN THE GSL'S
EFFORTS TO THIS END. THE MAJOR EMPHASIS OF THIS
PROJECT SHOULD, HOWEVER, BE ON THE PRIVATE SECTOR,
AS ITS TITLE SUGGESTS. THEREFORE, ANY AID ASSISTANCE
TO THE PARASTATALS SHOULD BE DIRECTED TO INSTANCES
WHERE THE GSL IS COMMITTED TO REDUCE GOVERNMENT
CONTROL AND, CONVERSELY, TO INCREASE PRIVATE SECTOR
OWNERSHIP AND/OR PARTICIPATION IN THEIR OPERATIONS.
FOR EXAMPLE, PROJECT-FINANCED CONSULTANTS COULD
IDENTIFY PARASTATALS THAT ARE READY FOR DENATIONALIZA-

TION OR DIVESTITURE, DEVELOP PLANS FOR SUBSIDY
REDUCTIONS/RECAPITALIZATION AND SPIN-OFF, OR DESIGN
CRITERIA FOR JOINT VENTURE WITH STRONGER FOREIGN
FIRMS.

6. IN LIGHT OF THE ABOVE CONCERNS, APAC DECIDED
THAT PROJECT SHOULD BE AUTHORIZED IN TWO PHASES.
A FIRST PHASE OF DOLS 4 MILLION, TO BE AUTHORIZED
IN 1982, WOULD INCLUDE (A) DOLS 3 MILLION IN GRANT
FUNDS TO BE OBLIGATED IN FY 82 TO COVER THE SECTOR
AND STRATEGY STUDIES, AS WELL AS THE FINANCIAL
MARKETS STUDIES AND TRAINING ELEMENTS, AND (B) A
DOLS 1 MILLION LOAN, TO BE OBLIGATED EARLY IN FY 83,
TO FINANCE A FIRST GROUP OF PRE-FEASIBILITY STUDIES.
THIS FIRST PHASE WOULD CONSIST OF DOLS 2 MILLION
IN SECTION 103 AND DOLS 2 MILLION IN SECTION 106
FUNDS. A FUTURE SECOND PHASE OF AN AS YET UNDETER-
MINED SIZE WOULD BE AUTHORIZED BY PROJECT PAPER
AMENDMENT AS SOON AS THE SUCCESS OF THE FIRST PHASE
IS

UNCLAS SECTION 02 OF 02 STATE 133799

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AIDAC

CAN BE DEMONSTRATED. USAID FY 82 OYS IS BEING RE-
VISED TO INCLUDE DOLS 1.5 MILLION 103 GRANT AND
DOLS 1.5 MILLION 106 GRANT FUNDS. USAID REP CON-
VEYED GSL VERBAL REQUEST THAT ENTIRE PROJECT BE
GRANT-FINANCED.

7. THE PROJECT IS IN AN AREA IN WHICH THE AGENCY
HAS LIMITED RECENT EXPERIENCE. PPC AND PRE HAVE
BOTH REQUESTED TO REVIEW THE PP BEFORE IT IS AUTHOR-
IZED. ACCORDINGLY, AND IN LIGHT OF STATE 88314,
APAC DECIDED THAT PROJECT PAPER SHOULD BE AUTHORIZED
IN AID/W.

8. MISSION REP HAS INITIATED DESIGN EFFORT. ROBERT
NATHAN WILL UNDERTAKE THE DESIGN OF THE PROJECT,
UNDER ITS IOC WITH AID. FYI, ARTHUR D. LITTLE,
WHILE EQUALLY QUALIFIED, HAS ALREADY EXHAUSTED ITS
QUOTA OF IOC CONTRACTS FOR THIS FY. END FYI.

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9. PLEASE NOTE THAT AID'S ULTIMATE OBJECTIVE, OR GOAL, REMAINS THE ECONOMIC DEVELOPMENT OF SRI LANKA, PARTICULARLY IN THE SECTORS OF INTEREST TO AID. STRENGTHENING THE PRIVATE SECTOR, AND INCREASING ITS ROLE IN THE COUNTRY'S DEVELOPMENT, REPRESENTS ONE MEANS TO THAT END, AND THE PRINCIPAL PURPOSE OF THIS PROJECT. PP AND PROJECT DESIGN SHOULD REFLECT THIS DISTINCTION, AND SUBPROJECT SELECTION CRITERIA SHOULD ALSO REFLECT THE DEVELOPMENTAL OBJECTIVES OF THE PROJECT. . . STOESSEL

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USAID/SRI LANKA'S COMMENTS ON PID ISSUES

Issue 1: "Concern with the amount proposed for the sector assessment/strategy and that it be completed within one year after contractor arrives". Comment: The Sector Assessment has been removed from the project and has been started using Program Development and Support funds. By starting the Assessment at this time, its findings and recommendations will be available for use in the early implementation of this project. All parties (Coordinating Committee, USAID, AID/W) have concurred in the scope of work for the Assessment and find the funding and timing of the work to be appropriate.

Issue 2: "Concern over amount allocated for pre-feasibility studies". Comment: The amount for pre-feasibility studies and industrial profiles has been reduced from \$4.25 million to \$1.0 million of the AID assistance.

Issue 3: "Concern with possible assistance to parastatals since emphasis should be on the private sector". Comment: The type of possible aid to parastatals mentioned in the PID is not included in the project design. No substantial amount of technical assistance or training will be provided to parastatals.

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ANNEX A PART II

Project Issues

The three issues identified by APAC in its approval of the PID (State 133799, Annex A) have been adequately resolved in the project design as presented in this PP. The project has been modified to address concerns and guidance from the House Appropriations sub-committee and AID/A in September - October, 1982 (Letter from Chairman Long to AID Administrator, Sept. 23, 1982; State 279571, Oct. 4, 1982 and State 291009, October 16, 1982; Staff Director Powers visit to Colombo, October, 1982; and letter from Mr. Wendel, ASIA/PD, November 19, 1982).

1. Studies: Some concern was expressed that the project was mostly studies and many might duplicate studies already made. The amount of aid in the project now being planned for studies is much less because the sector assessment is being financed outside the project. Care will be taken to prevent duplication of studies. The first task of the consultant will be to identify and use the studies already made.

Areas of further specialized review will be identified by the Sector Assessment. Such areas will probably lead to increased dialogue with the GSL on policy or regulatory changes which will improve the investment climate.

2. Consultants: There was some concern about the extensive and expensive use of consultants, and that the funds should be used "to do something". The IBRD and ADB are providing substantial amounts for investment lending (about \$80 million to date - see Annex J). Therefore the limited amount of AID funds will contribute far more to the expansion and improvements of the private sector if they are used to improve the investment climate. The \$4 million grant/loan would buy very little machinery compared to IBRD - ADB's \$80 million or the hundreds of millions of dollars of private investments already made. But if the AID funds are properly used to bring expert advice and assistance (both U.S. and Sri Lankan) to the Sri Lankan government and private sector officials, the resulting benefits will be much greater and far reaching than if used to buy machinery for one or two plants.

The cost of U.S. consultants is a fact of life that AID contends with in every project. While the direct cost would be lower if individuals under personal services contracts (PSC) were used instead of a large U.S. firm, this would be offset by the much higher AID administrative costs and staff time to identify, contract with, supervise and pay so many individuals (about 20 U.S. and 36 Sri Lankans of wide variety of expertise). The workload on the USAID staff would be much higher because they would have to directly supervise the many advisors instead of dealing only with

the chief of party. But more importantly, if PSC, rather than firms are used, the Sri Lankans would not have the benefit of the institutional ties and contacts. These contacts, which AII does not have to the same extent as a larger U.S. firm, will be essential for successful investment and export promotion activities, relevant and current market research, and continuity/consistency in the management training-entrepreneurial development elements.

An important objective of the contract will be to expand the ability of the service center to tap information and U.S. promotion mechanisms.

3. Beneficiaries: President Jayawardena has said many times that the first three development objectives are jobs, jobs and jobs. This objective is understandable since the unemployment rate is about 15%. Additional investments resulting from this project will create thousands of jobs. While some jobs will be taken by skilled people already employed, most jobs are likely to be for the semi-skilled and unskilled labor presently unemployed. Training in management and entrepreneur skills will make some people more employable. Better managers should mean more profits which should lead to additional investments and jobs. The numbers of jobs that might be created, their locations, types of skills needed, and types of people employed cannot be realistically estimated as they depend on many investment decisions voluntarily made by hundreds of private investors. In addition there is very little statistical data about employment in the private sector. This is discussed in more detail in Part V Section D (Social Analysis) and Annex F.

In addition to new jobs created directly by investments resulting from this project, many other jobs and small businesses will be created on the secondary level. For example, a plant put up in a rural area to process food for export could lead to more business for established firms and individuals, creation of new business activities (mostly very small to meet local needs) and more jobs because: (a) farmers to grow more food for the plant would need more inputs (seeds, fertilizer, labor, etc.); (b) raw materials needed by the plant and the plant's finished product would need transport services; (c) the plant would need many local services and materials for its operations; and (d) increased payroll for workers of the area would put more money into the local economy, thereby increasing demand for goods and services (spread effect). Thus, an investment in one new plant can have a "ripple" effect throughout the economy, creating jobs needed for the new plant.

4. Management Training: The consensus is that management training is greatly needed and should be a major component of the project. Over one third of the grant is now planned to be used for training. Preliminary indications are that this amount is very small in relation to the needs. However, a more comprehensive

analysis of needs and experience with the institutions are needed before AID could plan a larger level of assistance for management training. A portion of the technical services for this component may be used to design a follow-on project specifically for management training.

5. Investors Service Center: The Sri Lankans (public and private) now recognize the need for this Center to be created as soon as possible. Therefore its creation is a condition precedent to assistance and it will receive a major part of project funds. Previously, the Center was expected to be created at the end of this project.

6. Self-financing and self-liquidating: The AID project components, other than for the Investors Service Center, are to help on-going programs of selected Sri Lankan public and private sector organizations. The AID funds, which are in addition to their operating budgets, are to provide one-shot infusion of technical service, training, and equipment needed to greatly expand and improve services needed for increased private investment in productive enterprises. One exception, however, may be the management training institutions for which a follow-on project might be needed. Since the Investors Service Center does not yet exist, a considerable part of its initial operating expenses will be covered by AID funds. However, a feature of its establishment must be support from private (and perhaps public) sources and plans for income from services.

7. Policy dialogue: The sector assessment will lay the groundwork for policy dialogue and provide an analysis of the inter-relationships of government's actions, policies and programs on private sector investment. The Coordinating Committee provides a much needed forum for a dialogue between government and private sector officials. The work of the consultants (U.S. and Sri Lankan) under the project, as well as the sector assessment, will provide the Coordinating Committee and the CSL with the information and analysis needed for constructive discussions. USAID officials, as observers on the Committee and in carrying out usual project monitoring functions, will be discussing policy issues as and when appropriate.

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FINANCIAL DESIGN LOGICAL FRAMEWORK

Project Title & Number: Private Enterprise Promotion Phase I (383-0082)

Life of Project
From FY 1983 to FY 1987
Total U.S. Funding: 1,000,000
Date Prepared: Jan. 24, 1983

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Program or Sector Goal: The broader objective to which this project contributes:</p> <p>To increase employment income and locally produced goods and services needed to improve quality of life - especially for the people in the rural areas.</p>	<p>Measures of Goal Achievement:</p> <ol style="list-style-type: none"> 1. Private sector contributions to development increase. 2. Exports increase. 3. Rate of new jobs created in private sector increases. 	<p>Central Bank statistics on:</p> <ul style="list-style-type: none"> - employment levels. - private sector worker incomes. - supply/demand analysis of goods and services for domestic consumption. - volume and dollar value of exports 	<p>Assumptions for achieving goal targets:</p> <ul style="list-style-type: none"> - social conditions and attitude continue to favor private enterprise. - private enterprise responds favorably to improved opportunities.
<p>Project Purpose:</p> <p>To foster improved investment climate and increased private sector investments in Sri Lanka, both domestic and foreign, using resources where comparative advantages exist with emphasis on agro-industry.</p>	<p>Conditions that will indicate purpose has been achieved: End of project status:</p> <ol style="list-style-type: none"> 1. GSL adopts comprehensive policy/plan to promote private investments. 2. GSL takes action to reduce/remove constraints identified in sector assessment. 3. 10 new activities started due to prefeasibility studies and profiles. 4. Export of non-traditional products increase. 5. Time to establish new activity reduced. 6. Trained managers and entrepreneurs increase productivity. 	<p>Central Bank statistics on company formations and levels of production.</p> <p>Chambers of Commerce data on number of new firms formed and firms instituting management reforms.</p> <p>Ministry of Industries & Scientific Affairs Survey of approved industries</p>	<p>Assumptions for achieving purposes:</p> <ul style="list-style-type: none"> - Continuation of stable political climate conducive to private investment. - Chambers of Commerce actively assist in coordinating effort. - Managers willing to apply new technologies and skills.
<p>Outputs:</p> <ol style="list-style-type: none"> 1. Investors Service Center. 2. Improved in-country management training courses. 3. Expanded Entrepreneur Programs. 4. Prefeasibility studies. 5. Industrial profiles. 6. Investment promotion activities. 7. Sri Lankans capable of making quality prefeasibility studies. 	<p>Magnitude of Outputs: *</p> <ol style="list-style-type: none"> 1. Established. 2. Four institutions offering improved courses. 3. Four organizations offering expanded programs. 4. 30 studies completed. 5. 70 profiles completed. 6. Promotion trips abroad, publicity, etc. 7. No indicators available now. 	<ul style="list-style-type: none"> - Documents prepared for sector plan & prefeasibility studies. - Project evaluation and reports on training and entrepreneur efforts. 	<p>Assumptions for achieving outputs:</p> <ul style="list-style-type: none"> - Increased confidence in GSL commitment to private sector development. - GSL institutions will support initiative. - Adequate technical staff can be recruited to implement project.
<p>Inputs</p> <p>Technical assistance (U.S. & Sri Lanka)</p> <p>Training (U.S. and Sri Lanka)</p> <p>Commodities</p> <p>Misc. (promotions, seminars, etc.) work of S.L. Coordinating Committee.</p> <p>* EDFS and magnitude of outputs cannot be accurately quantified until completion of sector assessment.</p>	<p>Implementation Target (Type and Quantity)</p> <p>TA 137 U.S. and 522 p.m. S.L.</p> <p>Training - 9 months of special short courses.</p> <p>AID Grant \$3.0 million</p> <p>AID Loan 1.0 million</p> <p>GSL 3.6 million</p> <p>See Financial Plan for details</p>	<p>AID - OYB Budget allocations</p> <p>Sri Lanka - Cabinet approval of project for full life of project.</p> <p>Sri Lankan organizations continue to function on increased budgets.</p>	<p>Assumptions for providing inputs:</p> <ul style="list-style-type: none"> - U.S. and Sri Lanka have technical and financial resources available to implement project.

ANNEX B

STATUTORY CHECKLIST

5C(1) - COUNTRY CHECKLIST

Listed below are statutory criteria applicable generally to FAA funds, and criteria applicable to individual fund sources: Development Assistance and Economic Support Fund.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FAA Sec. 481. Has it been No.
determined that the government of the recipient country has failed to take adequate steps to prevent narcotic drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the U.S. unlawfully?
2. FAA Sec. 620(c). If Yes to the best of Mission Knowledge.
assistance is to a government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) the debt is not denied or contested by such government?

3. FAA Sec. 620(e)(1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities? No.
4. FAA Sec. 532(c), 620(2), 620(2), 620(2), FY 1962 Appropriation Act Secs. 2 and 513. Is recipient country a Communist country? Will assistance be provided to Angola, Cambodia, Cuba, Laos, Vietnam, Syria, Libya, Iraq, or South Yemen? Will assistance be provided to Afghanistan or Mozambique without a waiver? No.
5. EDDA of 1961 Secs. 704, 705, and 706. For specific restrictions on assistance to Nicaragua see Sec. 704 of the EDDA of 1961. For specific restrictions on assistance to El Salvador, see Secs. 707 and 708 of the EDDA of 1961. No.
6. FAA Sec. 620(d). Has the country permitted, or failed to take adequate measures to prevent, damage or destruction of property of U.S. property? No.

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7. FAA Sec. 620(l). Has the country failed to enter into an agreement with OPIC? No.
8. FAA Sec. 620(o); Fishermen's Protective Act of 1967, as amended, Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters? No.
- (b) If so, has any deduction required by the Fishermen's Protective Act been made?
9. FAA Sec. 620(g); FY 1982 Appropriation Act Sec. 517. (a) Has the government of the recipient country been in default for more than six months on interest or principal of any AID loan to the country? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the appropriation bill appropriates funds? No.
10. FAA Sec. 620(s). If contemplated assistance is development loan or from Economic Support Fund, has the Administrator taken into account the amount of foreign exchange or other resources which the country has spent on military equipment? (Reference may be made to the annual "Taking into

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Consideration' memo:
"Yes, taken into account
by the Administrator at
time of approval of
Agency OYB." This
approval by the
Administrator of the
Operational Year Budget
can be the basis for an
affirmative answer during
the fiscal year unless
significant changes in
circumstances occur.)

11. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption? No.
12. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the AID Administrator in determining the current AID Operational Year Budget? (Reference may be made to the Taxing into Consideration memo. The GSL is current.
13. FAA Sec. 620A; FY 1982 Appropriation Act Sec. 520. Has the country aided or abetted, by granting sanctuary from prosecution to, any individual or group which has committed an act of international terrorism? Has the country aided or In July 1982 Sri Lanka allowed a Sri Lanka national, the alleged hijacker of an Italian commercial aircraft enroute between New Delhi to Bangkok, to return to Sri Lanka from Bangkok with the ransom money paid for release of the aircraft and passengers. The accused was subsequently arrested by Sri Lanka, however, and the Government has stated it intends to live up to its obligations under international conventions on air piracy and hijacking requiring either prosecution or extradition for the offenses.

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abetted, by granting sanctuary from prosecution to, any individual or group which has committed a war crime?

14. FAA Sec. 666. Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA? No.

15. FAA Sec. 669, 670. Has the country, after August 3, 1977, delivered or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device, after August 3, 1977? (FAA Sec. 6102 permits a special waiver of Sec. 669 for Pakistan.) No.

16. ESPOC of 1961 Sec. 711. Was the country represented at the Meeting of Ministers of Foreign Affairs and Chiefs of Delegations of the Non-Aligned Countries at the 36th General Session of the General Assembly of the U.N. of Sept. 21 and 26, 1961, and failed

to be represented at the meeting when the communique was adopted, and it entered written reservations subsequently.

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to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the Taking into Consideration memo.)

17. ISDCA of 1981 Sec. 721. Not applicable.
See special requirements for assistance to Haiti.

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria.

a. FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy? No.

2. Economic Support Fund Country Criteria

a. FAA Sec. 501E. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the country made such significant improvements in its human rights record that furnishing such assistance is in the national interest? : : a.

b. ISDCA of 1981, Sec. 725(b). If ESF is to be furnished to Argentina, has the President certified that (1) the Govt. of Argentina has made significant progress in human rights; and (2) that the provision of such assistance is in the national interests of the U.S.?

Not applicable

c. ISDCA of 1981, Sec. 726(b). If ESF assistance is to be furnished to Chile, has the President certified that (1) the Govt. of Chile has made significant progress in human rights; (2) it is in the national interest of the U.S.; and (3) the Govt. of Chile is not aiding international terrorism and has taken steps to bring to justice those indicted in connection with the murder of Orlando Letelier?

Not applicable.

5C(2) PROJECT CHECKLIST

Listed below are statutory criteria applicable to projects. This section is divided into two parts. Part A. includes criteria applicable to all projects. Part B. applies to projects funded from specific sources only: B.1. applies to all projects funded with Development Assistance Funds, B.2. applies to projects funded with Development Assistance loans, and B.3. applies to projects funded from ESP.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT?

A. GENERAL CRITERIA FOR PROJECT

1. FY 1982 Appropriation Act Sec. 523; FAA Sec. 634A; Sec. 653(b).

(a) Describe how authorizing and appropriations committees of Senate and House have been or will be notified concerning the project;
(b) is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or not more than \$1 million over that amount)?

- a) Congressional Notification
b) Yes, by the Congressional Notification

2. FAA Sec. 611(a)(1). Prior to obligation in excess of \$100,00, will there be
- a) yes
b) yes

(a) engineering, financial or other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

3. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance? No legislative action is required.

4. FAA Sec. 611(b); FY 1982 Appropriation Act Sec. 501. If for water or water-related land resource construction, has project met the standards and criteria as set forth in the Principles and Standards for Planning Water and Related Land Resources, dated October 25, 1973, (See AID Handbook 3 for new guidelines.) Not applicable

5. FAA Sec. 611(e). If project is capital assistance (e.g., construction), and all U.S. assistance for it will exceed \$1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability effectively to maintain and utilize the project? Not applicable

6. FAA Sec. 209. Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs. No, however other donors are financing activities related to the project.
7. FAA Sec. 601(a). Information and conclusions whether project will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; and (c) encourage development and use of cooperatives, and credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions. (a) yes
(b) yes
(c) yes
(d) yes
(e) yes
(f) not directly
8. FAA Sec. 601(b). Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise). One purpose of the Project is to encourage foreign, including U.S. investments in Sri Lanka. Also U.S. firms preferably in joint venture with local institutions will compete for implementation of project activities with objective of developing local private sector.

9. FAA Sec. 612(b), 636(h);
FY 1982 Appropriation
Act Sec. 507. Describe
steps taken to assure
that, to the maximum
extent possible, the
country is contributing
local currencies to meet
the cost of contractual
and other services, and
foreign currencies owned
by the U.S. are utilized
in lieu of dollars.

A minimum of twenty-five percent of
project costs will be met by contributions
from the Sri Lankan Public and Private
Sectors.

No U.S.-owned Sri Lanka rupees are
available for project use.

10. FAA Sec. 612(d). Does
the U.S. own excess
foreign currency of the
country and, if so, what
arrangements have been
made for its release?

No.

11. FAA Sec. 601(v). Will
the project utilize
competitive selection
procedures for the
awarding of contracts,
except where applicable
procurement rules allow
otherwise?

Yes.

12. FY 1982 Appropriation Act
Sec. 521. If assistance
is for the production of
any commodity for export,
is the commodity likely
to be in surplus on world
markets at the time the
resulting productive
capacity becomes
operative, and is such
assistance likely to
cause substantial injury
to U.S. producers of the
same, similar or
competing commodity?

Production of commodities is not itself a
part of the project.

Some private sector investments resulting
from the project are however likely to
result in the production of commodities
for export in those areas where Sri Lanka
has a comparative advantage. Any such
commodities are highly unlikely to be
commodities in surplus on world markets
or to cause any injury to U.S. producers.

13. FAA 118(c) and (d).
Does the project comply
with the environmental
procedures set forth in
AID Regulation 16? Does

Yes.

Second question - Not applicable.

the project or program take into consideration the problem of the destruction of tropical forests?

14. FAA 121(d). If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (dollars or local currency generated therefrom)?

Not applicable

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FAA Sec. 102(b), 111, 113, 281(a). Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and

(a) U.S. institutions employed in implementing the project will assist in identifying the appropriate technology for the development of a specific resource which raises the productivity level of employees and creates new rural based small to medium scale industries.

(b) Project will directly assist in development of democratic private institutions employed in development of key local resources.

(c) Assistance will augment GEL economic liberalization policies that have played a major role in the recent expansion of the private sector in Sri Lanka.

(d) Women employees and managers in the private sector will benefit from the enhanced opportunities that will be realized from the expansion of the private sector in the national economy.

(e) Regional cooperation should be enhanced by the increased trade and investment opportunities that are to be developed by the project.

otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries?

b. FAA Sec. 103, 103A, 104, 105, 106. Does the project fit the criteria for the type of funds (functional account) being used? Yes.

c. FAA Sec. 107. Is emphasis on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)? Yes.

d. FAA Sec. 110(a). Will the recipient country provide at least 25% of the cost of the program, project or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)? Yes.

e. FAA Sec. 110(b).
Will grant capital assistance be disbursed for project over more than 3 years? If so, has justification satisfactory to Congress been made, and efforts for other financing, or is the recipient country "relatively least developed"? (H.O. 1232.1 defined a capital project as "the construction, expansion, equipping or alteration of a physical facility or facilities financed by AID dollar assistance of not less than \$100,000, including related advisory, managerial and training services, and not undertaken as part of a project of a predominantly technical assistance character.

Not applicable.

f. FAA Sec. 122(b). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth? Yes.

g. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage

Project contributes to expanding economic production base of private sector and increasing incomes of workers.

institutional development,
and supports civil
education and training in
skills required for
effective participation in
governmental processes
essential to self-government.

2. Development Assistance Project
Criteria (Loans Only)

- a. FAA Sec. 122(b).
Information and conclusion
on capacity of the country
to repay the loan, at a
reasonable rate of interest. GSL has the capacity to repay the loan
and the prospects of repayment are
favorable.
- b. FAA Sec. 620(d). If
assistance is for any
productive enterprise which
will compete with U.S.
enterprises, is there an
agreement by the recipient
country to prevent export
to the U.S. of more than
20% of the enterprise's
annual production during
the life of the loan? Not applicable.
- c. ISDCA of 1981, Sec. 724
(c) and (d). If for
Nicaragua, does the loan
agreement require that the
funds be used to the
maximum extent possible for
the private sector? Does
the project provide for
monitoring under FAA Sec.
624(g)? Not applicable.

3. Economic Support Fund
Project Criteria

- a. FAA Sec. 531(a). Will
this assistance promote
economic or political Not applicable.

stability? To the extent possible, does it reflect the policy directions of FAA Section 102?

- b. FAA Sec. 531(c). Will assistance under this chapter be used for military, or paramilitary activities? Not applicable.

- c. FAA Sec. 534. Will ESP funds be used to finance the construction of the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such use of funds is indispensable to nonproliferation objectives? Not applicable.

- d. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? Not applicable.

5C(3) - STANDARD ITEM CHECKLIST

Listed below are the statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by imposing limits on certain uses of funds.

These items are arranged under the general headings of (A) Procurement, (B) Construction, and (C) Other Restrictions.

A. Procurement

1. FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed? Yes.

2. FAA Sec. 604(a). Will all procurement be from the U.S. except as otherwise determined by the President or under delegation from him? Yes. Procurement will be financed; with grant funds from the U.S. and Sri Lanka; and with loan funds from U.S. Code 941 countries, including the U.S. and Sri Lanka

3. FAA Sec. 604(d). If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company? Project Agreement will so provide.

4. FAA Sec. 604(e); ISDCA of 1980 Sec. 705(a). If offshore procurement of agricultural commodity or product is to be Not applicable.

financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)

5. FAA Sec. 604(g). Will construction or engineering services be procured from firms of countries otherwise eligible under Code 941, but which have attained a competitive capability in international markets in one or these areas? Not applicable.
6. FAA Sec. 603. Is the shipping excluded from compliance with requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent that such vessels are available at fair and reasonable rates? No.
7. FAA Sec. 621. If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? If the facilities of other Yes.

Federal agencies will be utilized, are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

8. International Air Transport. Fair Competitive Practices Act, 1974. If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available? Yes.
9. FY 1982 Appropriation Act Sec. 504. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States? It will if there is.
- B. Construction
1. FAA Sec. 601(d). If capital (i.e., construction) project, will U.S. engineering and professional services be used? Not applicable
2. FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? Not applicable.

3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed \$100 million (except for productive enterprises in Egypt that were described in the CP)? Not applicable.

C. Other Restrictions

1. FAA Sec. 122(b). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter? Yes.
2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? Not applicable.
3. FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries? Yes.
4. Will arrangements preclude use of financing:
- a. FAA Sec. 104(f): FY 1982 Appropriation Act Sec. 525: (1) To pay for performance of abortions as a method of family Yes.

planning or to motivate or coerce persons to practice abortions; (2) to pay for performance of involuntary sterilization as method of family planning, or to coerce or provide financial incentive to any person to undergo sterilization; (3) to pay for any biomedical research which relates, in whole or part, to methods or the performance of abortions or involuntary sterilizations as a means of family planning; (4) to lobby for abortion?

b. FAA Sec. 620(g). To compensate owners for expropriated nationalized property? **Yes.**

c. FAA Sec. 660. To provide training or advice or provide any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? **Yes.**

d. FAA Sec. 662. For CIA activities? **Yes.**

e. FAA Sec. 636(1). For purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? **Yes.**

f. FY 1982 Appropriations Act, Sec. 523. To pay pensions, annuities, retirement pay, or **Yes.**

adjusted service
compensation for military
personnel?

g. FY 1982 Appropriation
Act, Sec. 505. To pay
U.N. assessments,
arrearages or dues? Yes.

h. FY 1982 Appropriation
Act, Sec. 506. To carry
out provisions of FAA
section 209(d) (Transfer
of FAA funds to
multilateral
organizations for
lending)? Yes.

i. FY 1982 Appropriation
Act, Sec. 510. To
finance the export of
nuclear equipment, fuel,
or technology or to train
foreign nationals in
nuclear fields? Yes.

j. FY 1982 Appropriation
Act, Sec. 511. Will
assistance be provided
for the purpose of aiding
the efforts of the
government of such
country to repress the
legitimate rights of the
population of such
country contrary to the
Universal Declaration of
Human Rights? No.

k. FY 1982 Appropriation
Act, Sec. 515. To be
used for publicity or
propaganda purposes
within U.S. not
authorized by Congress? Yes.

24183
 Telephone }
 24183 } Base
 Telegrams } FORAID
 FORAID }
 Colombo }
 1232 }



ANNEX D

CA 9/9/86B
 My No. }
 Your No. }

විදේශ සම්පත් දෙපාර්තමේන්තුව
 இதல் ம் துறை சම්පதம் திப்தம்
 வெளிநாட்டு வள திட்டங்கள்
 ඒ. ඒ. විදේශ සම්පත්
 DEPARTMENT OF EXTERNAL RESOURCES
 Ministry of Finance and Planning

Ceylone House (2nd Floor)
 Ceylone House (2nd Floor)
 No. 277, Colombo 1
 P. O. Box 277, Colombo 1

REFERENCE NO 82/1224
 DATE RECEIVED 9/18/82
 ACTION

Sept. 82

Miss S.J. Littlefield
 Director, USAID
 American Embassy
 Colombo 3.

Dear Miss Littlefield,

Private Enterprise Promotion

On behalf of the Government of Sri Lanka we wish to make a formal request for USAID assistance for undertaking a Project for Private Enterprise Promotion. The activities to be supported under this project have been identified by our authorities in collaboration with your Mission and representatives of the private sector. The activities so identified are based partially on the recommendations made by the Consulting firm Robert R. Nathan Associates, engaged by your authorities to study the opportunities and scope for increased private sector investment.

It is our understanding that USAID assistance to the extent of \$ 4.0 million (\$ 3.0 million as grant and \$ 1.0 million as loan) will be made available, over a 5 year period, for Phase I of the project. It is also anticipated that if the activities to be funded under this Phase are successfully implemented, USAID assistance on a greatly expanded scale would be made available for the development of a second phase.

We shall be deeply grateful if you would obtain the formal concurrence of your authorities for the implementation of the project, and the authorisation of the USAID support anticipated for the project.

Yours sincerely,

Mrs. S.L. Kuruppu
 for D.E.R.

ACTION	INFO
DIR	✓
AD	✓
LA	
EA	
PRO	✓
CC	X
MWRD	
HPHC	
AHD	
OSWIN	✓
DUE	9/16

cc : D/DEC.

New Institutions for Industrial Promotion

6.06 With a view to promoting private investment in specific areas the Government established a number of new institutions and agencies. These are the 'Greater Colombo Economic Commission (G.C.E.C.)' the 'Export Development Board (EDB)', the 'Foreign Investment Advisory Committee (FIAC)' in the Ministry of Finance and Planning, and, 'Local Investment Advisory Committees (LIAC)' in the Ministries of Industries, Textiles, Rural Industrial Development and Fisheries. In addition, the Government also set up the National Development Bank to look at the specific needs of medium and long term investment credit in the country.

6.07 The establishment of Investment Promotion Zones under the auspices of the G.C.E.C. was intended to be the major plank in the Government's strategy of export-led industrial growth. The G.C.E.C. is charged with attracting foreign investors who are prepared to accept a 100 percent export obligation, and wish to be located in the Free Trade Zone. It is intended to promote the acquisition of new and better technology, create more employment and enhance the country's foreign exchange earnings.

6.08 The G.C.E.C. offers approved foreign investors an impressive array of support facilities and incentives. There are the normal facilities of export processing zones, namely, rapid processing of applications, readily available sites with full infrastructure and business support facilities, exemption from import duties and normal import, export and exchange control procedures. In addition approved firms are exempt from all taxes on corporate and expatriate personnel incomes, royalties and dividends upto a maximum of seven years (and ten years under special circumstances) after which only a turnover tax ranging from 2 per cent to 5 per cent is payable for a further concessionary period of four to fifteen years. The period of the tax holiday and the rate of turnover tax are tied to the employment created and other criteria such as value added, net foreign exchange earnings, nature of technology used, size of investment, nature of market supplied, etc. At the minimum concessions, therefore, a firm will pay no taxes for two years and a concessionary turnover tax of 5 per cent for a further four years. Under maximum concessions the firm will pay no taxes at all for ten years and only a 2 per cent turnover tax for a further 15 years. Approved firms can be 100 per cent foreign owned and shares can be transferred within or outside Sri Lanka free of all taxes and controls. Repatriation of capital is free from all taxes and controls. Also, G.C.E.C. approved firms are classified as off-shore enterprises for banking purposes and, thus, have access to Foreign Currency Banking Units (FCBUs) now being operated by several domestic and foreign banks. G.C.E.C. firms can contract loans with these units in eight major currencies at interest rates comparable to those prevailing in the countries concerned.

6.09 Equally attractive incentives have been provided for industries outside the G.C.E.C. area, with or without foreign collaboration. Applications for such foreign investments in Sri Lanka outside the jurisdiction of the G.C.E.C. which do not involve the Government as the local partner are evaluated by the Foreign Investment Advisory Committee (FIAC). Such joint investments must have at least 51 per cent Sri Lankan equity participation. In cases where no significant transfer of technology is involved, the local participation is expected to be 75 per cent of investment.

6.10 Local Investment Advisory Committees (LIAC) have been set up in each of the major Ministries handling industrial production, namely, the Ministries of Industries, Textiles, Rural Industrial Development and Fisheries. Although these committees were originally established in the early 1970s mainly as regulatory bodies, their role and functions have undergone a complete change after the economy was liberalized in 1977. Now, they play a supportive role to their Ministries in the promotion and extension of new investments in their respective sub-sectors.

6.11 Special emphasis is being given to the speedy expansion of exports to generate foreign resources which would ease the country's balance of payments difficulties and reduce dependence on foreign aid for development. In an island-economy with a small domestic market, export orientation seems to be the only means of rapid industrial expansion. Outside the (G. C. E. C.), a major step for the promotion of exports was the establishment of the Export Development Board which provides technical assistance to exporters and takes other measures to promote exports. Schemes such as Export Expansion Grants, Customs Duty rebates, Long Term Credit Refinancing, Equity Participation by purchase of redeemable Preference Shares to assist projects with long gestation periods, and the sponsoring of Trading Houses, are among the measures taken by the Board for promoting industrial exports.

6.12 In the field of industrial credit, the Government established the National Development Bank to meet the increased demand for medium and long term credit. The National Development Bank was established in January 1979 with the principal objectives of promoting industrial development by — (a) providing medium and long term credit to the private and public sectors through direct financing and the refinancing of loans given by other credit institutions; and, (b) mobilizing internal and external resources, including stimulation of capital markets. It is empowered to provide a wide range of financial services including refinancing, underwriting and financing equity and debenture issues, providing guarantees, accepting deposits and issuing letters of credit.

6.13 Prior to 1977, the institutional sources of credit for industry were the four domestic commercial banks, the Development Finance Corporation of Ceylon (DFCC) and four foreign commercial banks. Of these, the DFCC was the only source of long term loans and enjoyed a monopoly in the provision of foreign exchange loans to private industry. It was also the only institutional source of funds for equity investment. After 1977, the newly created National Development Bank and the domestic commercial banks began to advance loans to meet the increased demand for long term lending and equity participation.

Greater Colombo Economic Commission (G.C.E.C)

6.32 By the end of 1981, 150 projects (excluding dropouts) had been approved in the Free Trade Zone with a total investment of Rs. 5,377 million. Of these, 104 projects were considered active. Forty one projects were in commercial production in 1981 against 23 in 1980, while others were in various stages of construction. Gross export earnings from these projects had increased from Rs. 152.1 million in 1979 to Rs. 529 million in 1980 and Rs. 1,719 million by November 1981 while employment had increased from 5,884 at the end of 1979 to 10,581 by 1980 and 19,921 by 1981. Among the 104 active projects, 64 projects are joint ventures with foreign collaboration, 30 projects wholly foreign and 10 wholly domestic enterprises. These projects have brought in investors from 25 countries including USA, U. K. West Germany, Norway, Netherlands, Japan, India, Switzerland, Singapore, Middle East and Hong-kong. Projects like those for the manufacture of electrical goods and accessories, electronics, irrigation pumps, industrial chemicals, cargo containers, leather goods, hand tools, activated carbon, etc., which involve a substantial level of technology, are expected to result in healthy spread effects in the domestic economy. In view of the capacity for garment manufacture available in the areas outside the G.C.E.C and of certain disadvantages to the local garment exporters, a selective policy was adopted in 1979 whereby new garment approvals are not normally given in the G.C.E.C. area. The Table below summarizes the performance under the G.C.E.C during the last four years.

Greater Colombo Economic Commission — Performance

	1978	1979	1980	1981	1978—1981
No. of Units Approved	52	37	43	18	150
No. of Units Contracted	29	12	25	09	75
No. of Units in					
Commercial Production			23	41	41
Total Investment	1,624	1,041	1,652	1,663	5,980
(Anticipated)					
(Rs. Million)					
Foreign Investment	1,202	771	1,189	879	4,041
Local Investment	422	270	463	784	1,939
Employment Potential in					
Approved Units	26,495	13,169	18,607	11,406	69,677
Employment (Actual)	N.A.	5,884	10,581	19,921	19,921
(Cumulative)					
Gross Export Earnings	N.A.	152.1	529.0	1,719.0*	2,400.1

* Up to November 1981

Foreign Investment Advisory Committee

6.33. There has also been a significant inflow of foreign investment through the projects approved by the Foreign Investment Advisory Committee (FIAC). The number of units approved increased from 21 in 1978 to 63 in 1981, representing a total investment potential of Rs. 3,837 million by end of 1981. Both G.C.E.C and F.I.A.C. schemes have, thus, paved the way for a major boost for export oriented industrial development. The table below gives the break up of industrial approvals given by the F.I.A.C. during the past four years:

	1978	1979	1980	1981
<i>Foreign Investment Advisory Committee (FIAC)</i>				
Number of Units	21	61	66	63
Foreign Investment (Rs. Million)	74	387	1,049	717
Total Investment (Rs. Million)	121	971	1,585	1,160
Employment Potential (Nos.)	2,385	9,216	6,985	5,049

Local Investment Approvals Committee

6.34 There has been considerable progress made in the industrial projects funded entirely from local sources which fall within the purview of the LIACs of the Ministries of Industries, Textiles, Fisheries and Rural Industrial Development. Although there has been a gradual decline in the number of new industries approved over the last two or three years, the total number of projects approved since 1977 is over 5,700. This compares favourably with 1,866 projects approved prior to July 1977. Nearly 80 per cent of the projects approved during 1981 fall in the categories of ferrous and non-ferrous metal products, petroleum and chemical products, wood, paper and paper products.

Small and Medium Scale Industries

6.35 The development of small and medium scale industries can play a significant role by contributing to increased production and employment. These small and medium scale industries are well suited to the local environment, particularly areas where sophisticated infra-structural facilities have not been developed. Several measures have been taken to overcome the problems of these industries and ensure their smooth growth. In view of the significance of the textile sector special measures such as, setting up of a Textile Research and Training Institute with UNIDO assistance, the setting up of Lanka Fabrics Limited to assist weavers in marketing their products and the setting up of Lanka Handloom (Export) Limited, were taken to provide access to markets and technology.

6.36 In order to assist small and medium industries, a special project was introduced in 1979 with IDA assistance, designed to provide access to industrial credit with reduced collateral through the National Development Bank and other participating credit institutions and technical assistance, principally through the Industrial Development Board. The IDB component of this project includes training, provision of extension facilities and establishment of a Sub-Contracting Exchange for improvement of process and product sub-contracting with large industries. Measures have been taken to ensure that the Sub-Contracting Exchange, Rubber Product Service Centre and Common Facility Centre for light engineering industries become fully operational. Out of a total allocation of US \$ 16.0 million, US \$ 12.0 million were set apart for refinancing of credit while US \$ 4.0 million was utilized for improvement of technical services. Credit was made available to a wide range of small and medium enterprises in the areas of manufacturing, agro-industries, construction materials, handicraft and industrial services. The credit component was fully committed to 1,677 industrial units, one and a half years ahead of schedule. Distribution of credit under the IDA assisted small and medium scale industries project are given in the Table 6.4.

Table 6.4

Distribution of Credit Under SMI I as December 1981*

Industry Group	Number of Units	Percentage	Amount of Credit Rs./Mn.	Percentage
Food Processing ..	447	26.6	64.92	23.8
Other Agro-Industries ..	128	7.6	14.66	5.4
Rubber Products ..	29	1.7	6.92	2.5
Metal Products ..	183	10.9	23.62	8.7
Construction Materials ..	263	15.7	52.61	19.2
Construction Contracting ..	13	0.8	6.75	2.5
Wood Products ..	161	9.6	22.26	8.1
Garments ..	87	5.2	10.76	3.9
Textiles ..	45	2.7	9.83	3.6
Repair-Workshops ..	48	2.9	5.54	2.0
Others ..	273	16.3	55.25	20.3
Total ..	1,677	100.0	273.12	100.0

* Source : National Development Bank

6.37 A second Small and Medium Industry Project was negotiated with IDA in order to provide further assistance to increase output, employment and efficiency

of small and medium industries. The project has a credit component of US \$ 28.0 million and a technical service component of US \$ 2.0 million. This project is expected to be in operation over a period of three years commencing 1982. Under the second SMI Project, about 2,000 sub-projects are expected to be provided with financial assistance. Extension and consultancy services will also be expanded under the project. A survey of projects assisted under the first SMI Project has been initiated to assess the progress made by the industries established under it.

6.38 Twenty five small rural and handicraft industries have been selected initially by the Rural Industries Advisory Committee for development. A National Crafts Council, a Handicrafts Boards and a National Design Centre for the purpose of promoting development and fostering handicrafts are being set up. The foreign exchange earnings from exports of handicrafts amounted to Rs. 1.62 million in 1981. The Department also continued its training activities in carpentry and opened five new Artline Textiles Centres, a Design Centre and two Embroidery and Needlework Centres.

A SOCIAL SOUNDNESS ANALYSIS
OF
THE PRIVATE ENTERPRISE PROMOTION PROJECT

Submitted to US-AID, Sri Lanka

by

Research and Consultancy Services (Private) Limited

August, 1982

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Works Cited

Not Available Document

A SOCIAL SOUNDNESS ANALYSIS

OF

THE PRIVATE ENTERPRISE PROMOTION PROJECT

1. INTRODUCTION

The present analysis was undertaken by Research and Consultancy Services, Ltd., (RCS) at the request of US-AID. The RCS has derived its project information from a three-part document on the Private Enterprise Promotion Project (Part I - 'Summary of Recommendations', Part II - 'Description of the Project' and Part III - 'Social Soundness Summary') made available by US-AID. The RCS has also been supplied with certain guidelines to Social Soundness Analysis (Aid Handbook 3, App. 4A) which indicate that the project analysis should focus on (a) the socio-cultural feasibility of the proposed project, (b) its 'spread effects' and (c) its social consequences and incidence of benefits.

2. THE PRIVATE ENTERPRISE PROMOTION PROJECT (PEPP)

The PEPP is designed to promote private investment primarily for the purpose of encouraging production and generating employment within the industrial sector of Sri Lanka. It lays stress on the development of new manufacturing industries that are based on local resources and are geared to export trade. The promotion of entrepreneurial collaboration between foreign investors and their local counterparts is also envisaged by the proposed project.

The basic strategy of the PEPP, as made evident in the 'Description of the Project', appears to be that of removing certain constraints and disincentives to private enterprise prevalent in the country. In this respect, the

PEPP differs from the more conventional type of aid project - those that involve the provision of direct material and/or monetary assistance to specifically demarcated areas or pre-defined target groups or development schemes in the recipient country. In pursuance of the PEPP's strategy, the different components of the PEPP are concerned mainly with the systematic enhancement of the provision of incentives and supportive services to the private sector within a coherent framework of related government policy, facilitating easier access for private investors to capital markets, generating and diffusing techno-economic information on potential avenues of industrial investment and on potential markets, and training of managerial personnel.

3. SOCIO-CULTURAL FEASIBILITY OF THE PEPP

An analysis of the 'Social Soundness' of the PEPP from the perspectives of socio-cultural feasibility should entail a probe into both the objectives of the project as well as the project design. Accordingly, in the present section of our analysis, we inquire first into the general issue of whether the promotion of private enterprise is appropriate to the prevailing socio-cultural ethos of Sri Lanka. We then attempt an investigation of the related issue of whether the specific measures envisaged within the PEPP are compatible with the current needs and prospects of the country.

3.1 New Economic Policy

To the present inquiry the response of the people of Sri Lanka to the transformations of economic and social policy witnessed during the past 5 years is of crucial relevance. At the General Elections of 1977, a political

party that had pledged (inter alia) to remove excessive state controls over the country's economy and to facilitate the dynamic participation of the private sector in the development effort was returned to power with a massive parliamentary majority, indicating, at the very least, that the preservation of a centrally controlled economic system towards which the country was moving during the previous regime was not a major political concern of the voting population.

Since its electoral victory, the new government, despite a powerful heritage of central control and welfarism inherited from the past, has endeavoured, both directly and indirectly, to promote private enterprise through a policy package of 'economic liberalization' (for details, see, Samarasinghe, 1988). On the one hand, an attempt has been made to harness the forces of the free market for economic development through various measures such as the removal of price controls, the curtailment of consumer subsidies, the floating of the exchange rate and the reduction of exchange and import restrictions. On the other, a series of measures such as the grant of tax concessions to investors, the establishment of Investment Promotion Boards and the liberalization of government investment in order to promote infrastructure has been adopted, primarily for the purpose of attracting local and foreign private sector participation in the development effort.

3.2 Private Sector

There is ample evidence that the private sector has indeed responded positively to these stimuli and that the overall acceleration in growth (Table 1 - Appendix) recorded during the recent period is due to the larger global economic

constraints) is at least partly accounted for by the increased vigour of private enterprise. There is also evidence which suggests that the people of Sri Lanka have perceived these recent trends of change as both necessary and desirable.

In the first place, freed from the shackles of excessive state control, those with entrepreneurial ability and talent were prompt in utilizing the more readily identifiable avenues of investment such as those in the tourist industry, construction, passenger transport and a range of labour-intensive export-oriented manufacturing industries, contributing substantially to the alleviation of the problem of unemployment in the country (See below, p. 13). The rate of registration of joint-stock companies in Sri Lanka, for example, may be regarded as a rough indicator of the acceleration of private sector participation in economic activity during the period under review (Table 2).

TABLE 1

Registration of New Companies in Sri Lanka

<u>Year</u>	<u>Number of New Companies Registered</u>
1976	264
1977	319
1978	624
1979	796
1980	966
1981	1,030

Source: Registrar of Companies, Sri Lanka.

That the people, in their role of both workers and consumers, readily accepted these new developments is perhaps the most obvious indicator of the absence of a fundamental conflict between private enterprise and the de facto ethical norms and socio-cultural values of Sri Lankan society. A classic example which illustrates this contention can be drawn from the recent changes in the system of road transport services. Up to 1977, public passenger transport by road was a near exclusive State monopoly controlled by a public corporation established at the time of the nationalization of private omnibus services in 1958. Following the re-opening of this avenue of investment to the private sector in 1977, there began a phenomenal expansion of privately operated road transport services such that, within 4 years since the introduction of the policy change, the daily operational fleet of privately owned road passenger transport was equivalent to about 65% of that of the State sector. To the issue under discussion, several related considerations underscore the significance of this change. For instance, the State-run omnibus services, being the pioneer venture of nationalization in independent Sri Lanka, had associated symbolisms in political ideology and dogma. Despite this, and other factors such as entrenched vested interests and fare differentials, there is no evidence whatever of any popular "consumer resistance" to the increasingly important role being played by the private sector in an area of the economy which was once the exclusive domain of the State sector.

3.3 Past Records of Collective Enterprise

Apart from the foregoing evidence that point to an absence of conflict between private enterprise and the prevailing socio-cultural ethos of Sri Lanka, the stimulation of private enterprise finds further justification from the

country's past experiences with attempts at promoting cooperative and communal enterprise in agriculture and industry. Sporadic attempts made from time to time during the past three decades to foster the development of cooperative and communal organisations (either in the guise of restoring what was believed to be values of traditional Sinhala society or with declared commitments towards a socialist transformation of society) have, without exception, records of unqualified failure. For example, in the agricultural sector, communal farming ventures begun under the 'Electoral Farms Programme' of 1964 (Schaller, 1967), the production cooperatives and communal Youth Farms that proliferated in the wake of the Divisional Development Council (DDC) Programme and the land reforms of the early 1970s (Peiris, 1972; Ministry of Agriculture and Land, 1972; Peiris, 1976; Karunatilaka, 1978) were all distinct failures in respect of fulfilment of expectations in terms of commercial viability, production and employment (Peiris, 1972; Ganewatte, 1973; Peiris, 1974; Karunatilaka, 1978). In each case, they were either closed or converted into individual smallholdings or were abandoned, invariably, in a brief span of existence. Similarly, cooperative industrial ventures of the past, for which the major sponsoring agency was the DDC Programme of the early 1970s, seldom achieved viability and significance in terms of production, employment. Research studies indicate in general that such collective ventures failed primarily due to their failure to mobilise popular enthusiasm and support for their activities.

2.4. Politics and the Role of the State in Industrialisation

It seems clear that one of the major contributory causes for the relatively high degree of success achieved within the framework of the new economic policy is the relatively stable political climate that has prevailed over the past 5 years. The new constitution promulgated

in 1968 consolidated the electoral victory of the present ruling party and eliminated the potential for disruptive stresses and strains within its ranks. The present government has thus achieved an unprecedented measure of success in the smooth implementation of drastic reversals of earlier policy and in moving towards coherent new policy goals. And, despite the enhanced freedoms granted to political opposition (greater circumspection than earlier in the exercise of 'Emergency Powers', restoration of the Rule of Law and the freedom of the press and of political association) and despite soaring inflation, the country has been remarkably free from industrial disputes and agrarian unrest.

For private enterprise and for commitments towards its promotion, the crucial issue at present is whether the political stability that has characterized the recent past will continue into the future. Obviously, a discussion of this issue cannot avoid a substantial element of conjecture. Nevertheless, some optimism in this regard is warranted by the fact that (even if one were to ignore here the possible positive effects of economic gains of the recent past on the behaviour of the electorate) the new Constitution contains safeguards against cataclysmic changes in the political system of the country and that, to a considerable extent, it also ensures a closer correlation than before between the popular support a party could muster at elections and its eventual parliamentary strength. Mention can also be made here to the safeguards for foreign investment enshrined in the Constitution. In the context of this constitutional framework and also on the basis of past records of electoral performance of the different political parties in Sri Lanka, it appears reasonable to conjecture that the impending termination of tenure of the present government is unlikely to result in political and economic policy changes that would adversely affect the prospects for private enterprise in the country during the foreseeable future.

3.5 Programme Components

The components of the PEPP when looked at collectively appears to focus on certain key areas of supportive services which have hitherto remained inadequate or ineffective in providing the required incentives to prospective investors in the private sector. In this respect, the project components can be regarded complementary to the current national policy and strategies of industrial development. Hence their consonance flows basically from the socio-cultural feasibility of the project as a whole for which we have argued in the foregoing sections of our analysis.

Nevertheless, some specific comments on how appropriate the project components are to the current needs and aspirations of Sri Lanka are of relevance here.

From the viewpoint of duration and resources allocation, the project components devoted to the formulation of 'Prefeasibility Studies' and 'Blueprints' of industries has received greater emphasis than the others. Past experiences both of Sri Lanka and elsewhere show that in the early stages of modern industrial development, entrepreneurial effort tends to be confined to narrow paths. The choice of industry is invariably a successive process in which the only safeguard against real devaluation of the pioneer. This often results in the growth of excess capacity in a few industries and under-utilization of the overall industrial potential of the country. Moreover, the existing information on Sri Lanka's industrial potential is scanty. The available 'business profiles' (eg. Currie, 1979; Houghton & Houghton Banking Corporation, 1980; Ministry of Finance & Planning, 1980) have adopted

¹ The garment industry of Sri Lanka is perhaps the most obvious example of local industry developing excess capacity due to over-enthusiasm (People's Bank, 1980). Certain industries such as the hospitality to tourism (eg. manufacture of ornamental artefacts and batiks) appear to bear the 1980 symptoms. More examples can be drawn from the light manufacturing industries that mushroomed in the late 1960s.

Best Available Document

macro-economic perspectives and have no more than general publicity objectives. A few feasibility studies on individual industries have been prepared by the Industrial Development Board of Sri Lanka. Unfortunately, in terms of detail and depth of techno-economic content, they do not reach the desired standards, particularly those demanded by foreign investors. Further, most studies of this genre have been designed to suit an earlier economic milieu where import substitution rather than export promotion was the dominant theme of national policy on industrial development.

Management training is yet another area of supportive action upon which the PEPF expects to place considerable emphasis. While the managerial skills, and also facilities for upgrading of managerial skills available in Sri Lanka today are inadequate to provide a major thrust towards the promotion of export-oriented industry, there is ample justification for Sri Lanka to emulate in this regard Japan and the Newly Industrialized Countries (NICs) which have demonstrated that government-sponsored efforts at developing sophisticated managerial skills and the implementation of reforms in the system of business management were key factors in their transformation into industrial economies (Asia Development Organization, 1961, pp. 37-38 & 109-111).

Similarly, the experience of the NICs also indicate the significance of market reform and export promotion as stimulants to enterprise and development in the private sector. Of the special experience of South Korea in this

* Facilities available at present for formal management training in Sri Lanka are largely confined to the National Institute of Business Management and the Faculty of Management Studies and Commerce at the University of Jayewardenepura.

regard, Herman Kahn 1979, (p.344) has observed :

"Another factor contributing to growth was that the government began not by building industries or worrying about foreign ownership, but by looking abroad to see what Korea itself might do, thus approaching the basic strategy of Meiji Japan. ... An important part of this approach ... was the promotion of Korean exports abroad and ... (of) market research to see what industries or business Koreans should go into."

Among the factors that inhibit the emergence of private enterprise in developing countries, the lack of ready access to money and capital markets is regarded as one of the most formidable constraints. The limited capital available to the private sector either in the form of private savings, or as credit from local or foreign lending agencies, or in the form of external collaboration, tends to be attracted by the larger and more established firms and/or by the conventional avenues of investment, exacerbating the problem from the viewpoint of the small industrial entrepreneurs and of new avenues of investment (see, McKinnon, pp. 14-15). The IMF has appropriately recognized the current need to facilitate an easier flow of savings into industrial investment and a ready discussion of information or sources of credit amongst prospective entrepreneurs.

In the Sri Lanka context, Figure 1 is an illustration of this feature, the contrast in performance of the Development Finance Corporation (DFC) which financed relatively large industrial projects and the Agricultural and Industrial Small Enterprise Corporation which was geared mainly to assist the small industry. Details in Sankaranarayanan, 1979.

4. SPREAD EFFECTS

"Spread Effects" of a project may be defined (Aid Handbook 3, App. 4) as the impact of the project outside and beyond its immediate target groups. Within the framework of such a definition it is possible to anticipate that the FDI will have several specific but interrelated facets of diffusional spread which, for convenience of analysis, we categorize here as (a) Entrepreneurial spread effects, (b) Technological spread effects, and (c) Spatial spread effects.

4.1 Entrepreneurial Spread Effects

Starting with the most basic of spread effects -- those that usually characterize transmutations of subsistence societies -- we take cognizance of the phenomenon of entrepreneurship (itself generating more entrepreneurship. (Lindis, 1966, pp. 25-4)). In this context, the timing of the FDI, can be regarded particularly appropriate. In recent years, the repatriation of savanah by Indian emigrants abroad has been emerging as a major source of foreign earnings, one which is expected to lead to a steady flow which for nearly 100 years has been the major source of foreign earnings for the country. In 1965, such repatriated savings amounted to Rs. 400 million. See Central Bank of Ceylon 1966, Table 10. The United States, while being distant over a long period of time, also has a greater potential for accumulating personal savings than the country of origin of foreign income. There are also, as private capital resources of private capital accumulated in the country, the dramatic increase in the rate of mobilization of savings by the banking

system in Sri Lanka during the past few years. Thus, in the current situation, an untapped potential of entrepreneurial emulation exists, provided the models for such emulation are created by the stimulus of the PEPP.

4.2 Technological Spread Effects

It has been the frequent experience of Sri Lanka that when once a particular industry is established by pioneer entrepreneurs as a source of financial profit, its adoption by others occurs with remarkable rapidity. Private road transport services and industries that are ancillary to tourism to which reference has been made already are illustrations of this phenomenon (and its attendant dangers) from recent history.

Other technological spread effects of new industrial ventures can be expected in the form of industrial ventures which would result from forward and backward linkages for which industries based on local raw materials present much potential.

4.3 Spatial Spread Effects

The impediments to private entrepreneurship which the PEPP seeks to remove are more formidable in the rural areas than in the urban areas. To some extent this is illustrated by the fact that in 1978 the districts of Colombo and Gampana accounted for 75.1% of the total of registered industrial units and 97.4% of the gross value

By the end of 1977 the aggregate of savings and fixed deposits in the Sri Lankan banking system was Rs.6,037 m. By the end of 1981 it had increased to Rs. 20,365 m. The latter figure, when deflated by the implicit GDP deflator would represent a real increase of 92% between 1977 and 1981. One may also note that, between 1977 and 1981 the ratio of such deposits to the GNP increased from 18% to 26%. (See Central Bank of Ceylon, 1982, Table 43).

of industrial production in the country (Department of Census & Statistics, 1980).

The PEPP with its focus on the utilization of local resources (raw material, underemployed labour, etc.) can be expected to contribute towards a reduction of prevailing regional imbalances in the development of manufacturing industry in Sri Lanka.

5. SOCIO-ECONOMIC CONSEQUENCES

5.1 Effects on Income Distribution and Employment

The contribution of the PEPP to an acceleration of economic growth can be expected to raise the level of income and employment. There is a widely held belief based on the Kuznetsian "U-curve" that inequality first rises and then falls as the economy progresses from very low to high levels of development (Kuznets, 1955, pp. 291-303). This may be found to be true in some cases but it is not universal. For example, Taiwan and South Korea, two of the leading NICs in Asia, have successfully combined rapid economic growth with a more egalitarian distribution of income (Chenery, et.al., 1975, pp. 280-285).

In the case of Sri Lanka there is some evidence to suggest that relatively rapid economic growth has been associated with a more egalitarian distribution of income. According to the Central Bank's Consumer Finance Surveys (Central Bank of Ceylon, 1974), in 1963 the top decile of income receivers accounted for 36.8% of the total income and the bottom four deciles 12.0%. In 1973, the respective percentages were 30.0% and 15.1% (Central Bank of Ceylon, 1974) respectively. This

somewhat sharp movement towards a more egalitarian distribution of income was associated with an annual average GDP real growth rate of 4.2%. Between 1973 and 1977 the GDP real growth rate dropped to an annual average of 3.4%. The preliminary findings of the 1978 Consumer Finance Survey (Dahanayake, 1981) suggest that income distribution also became less egalitarian during this period as borne out by the fact that the top decile was reported to have received 39.0% of the total income and the bottom four deciles 12.3%. And, this happened in Sri Lanka after 1973 notwithstanding some major institutional changes such as the Land Reform, the nationalization of Company-owned estates and the establishment of Divisional Development Councils which were meant to make income distribution more rather than less egalitarian. The explanation, it appears, lies in the degree of success with which new job opportunities were created. Countries such as Taiwan and South Korea were successful in combining rapid growth with a more egalitarian distribution of income mainly because they succeeded in practically wiping out unemployment during that period. If Sri Lanka's comparative growth rates for 1964-73 and 1973-77 are taken as indicators of the underlying trends in job creation during the two periods, the same argument as for South Korea and Taiwan will hold true for this country as well. In any event as Frank and Webb (1977, p. 90) remark :

"Conventional measures of income distribution (of income) usually encompass the entire economy. The Gini Coefficient, the Kuznets Ratio, the Pareto Coefficient are all indicators of the extent to which a given proportion of national income accrues to a given percentage of the population. These are useful measures,

but for most developing countries at the present time, the most pressing social problem seems to be the existence of widespread severe poverty.

It would appear then that a more specific guide to policy than any of the less relevant general measures is the extent to which the very poor are helped by the policy." (our italics)

Thus the PEPP with a focus on labour-intensive local resource-based private industry is likely not only to accelerate economic growth but also to have an egalitarian impact on the distribution of income by raising the absolute income levels of the poorer sections of the community.

The data in Table 2 serve to illustrate the urgency for programmes which are designed to create new job opportunities while economizing on relatively scarce resources such as capital and foreign exchange.

For methodological reasons the individual figures in Table 2 may not be strictly comparable with one another. However, they leave no doubt that unemployment in Sri Lanka has steadily risen at least since the late 1950s. The figures also suggest that over the period 1960-80 the annual net addition to the labour force has averaged around 125,000. In other words, Sri Lanka has had to create a minimum of 125,000, new jobs every year to prevent a worsening of the unemployment situation and considerably more than that number if the country was to entertain serious hopes of clearing the backlog. In this context what is pertinent to observe is that the only occasion on which this seems to have happened for any considerable length of time was over the period 1978-81, when the private sector has been allowed a freer hand. Indeed, as the figures shown below (Table 3)

TABLE 2

Estimates of Employment and Unemployment in
Sri Lanka, 1946-1980

Year and Source		Employ- ment ('000)	Unemploy- ment ('000)	Rate of unemploy- ment (%)
1946	Census	2,646	n.a.	n.a.
1953	Census	2,993	n.a.	n.a.
1959	ILO Survey	3,140	High 450 Low 340	10.5 12.8
1963	Census	3,199	High 390 Low 265	10.8 8.0
1963	Consumer Finance Survey	-	457	13.8
1968/9	Labour Force Survey	3,631	450	11.0
1969/70	Socio-Economic Survey	3,547	550	15.0
1971	Census	3,649	839	19.0
1973	Consumer Finance Survey	-	1,000	24.0
1975	Land and Labour Utilization Survey	-	984	19.9
1976	Ministry of Plan Implemen- tation (Estimated)	-	1,072	-
1978	Ministry of Plan Implemen- tation (Estimated)	-	900	-
1978/9	Consumer Finance Survey (Provisional)	-	874	15.0
1980	Labour Force and Socio- Economic Survey	4,738	857	15.3

Sources : All except the last line - Central
Bank of Ceylon, 1980, p. 95;
Last line - Department of Census
and Statistics, 1982, p. 14.

TABLE 3

Employment Creation, 1978-81

	<u>Number</u>	<u>%</u>
1. State sector	180,451	25.8
2. Formal private sector	182,555	26.1
3. Informal private sector	336,994	48.1
4. All private sector (2 + 3)	519,549	74.2
Total	700,000	100.0

Source : Lines 1 and 2 - Central Bank of Ceylon, Review of the Economy (Annual); Line 3 - Authors' estimate based on data in Tables 2 and 3.

demonstrate, every three out of four jobs created in the economy during this period were in the private sector and almost half the jobs were in relatively small-scale informal employment.

The focus of the PEPP on job creation, especially in the rural sector through location of industry outside the major urban centres, is important also for the beneficial effects it would have on alleviating the problem of underemployment and seasonal unemployment. The data in Table 4 reveal that about 10% of the country's labour force has had less than 21 weeks of works in a year and another 30% less than 37 weeks. Although the overall incidence of underemployment appears not to be significantly different as between males and females, the percentage of females who had less than 21 weeks of work per year was higher than the corresponding figure for the males. Moreover, as one would expect, the rate of underemployment among agricultural workers was significantly higher than the national average. Thus,

TABLE 4

UNDEREMPLOYMENT AND SEASONAL UNEMPLOYMENT, 1979-80

Number of weeks worked in the year	TOTAL LABOUR FORCE			AGRICULTURAL LABOUR FORCE								
	Male		Female		Total		Male		Female		Total	
	Number ('000)	%	Number ('000)	%	Number	%	Number ('000)	%	Number ('000)	%	Number ('000)	%
20 or less	346	9.5	197	16.0	543	11.2	200	12.7	127	20.4	326	14.9
21 - 36	1,035	28.6	341	27.7	1,376	28.3	635	40.4	218	35.2	854	39.0
37 and over	2,242	61.9	691	56.3	2,933	60.5	736	46.9	275	44.4	1,011	46.1
TOTAL	3,623	100.0	1,229	100.0	4,852	100.0	1,571	100.0	620	100.0	2,191	100.0

Source : Department of Census and Statistics, 1982

if the PEPP succeeds in channelling more industrial investment to the rural sector, we can expect it to have a beneficial impact on the underemployed and seasonally unemployed rural workforce, especially women.

The development of agro-based industries can have the effect of expanding and stabilizing the market for agricultural produce. This should help the farmers to earn a higher and more stable income. Furthermore, the creation of a reliable market for such produce will also be helpful to generate a sense of confidence among the farming community in the agricultural diversification programme of the Government.

5.2 Social Benefits

The social benefits of the PEPP are closely interwoven with the economic benefits that have been outlined above. Any substantial reduction in unemployment and an improvement in living standards should contribute to overall social welfare and stability. Indeed, there is evidence of more than circumstantial nature to support the contention that unemployment, especially among the youth, was one of the prime causes of socio-political instability that Sri Lanka has experienced in the past two decades. Most observers agree that the insurrection of 1971 was precipitated mainly by a serious dearth of suitable employment opportunities for rural youth. There is also evidence to believe that the change of governments which occurred at every General Election in Sri Lanka stemmed largely from the frustration felt by the youth voters (Samarasinghe, 1981).

finally mention may be made of the fact that the location of manufacturing industry outside Colombo will also bring certain social benefits. The resources that are required to develop the social infrastructure such as houses, roads, schools, hospitals and communications will be considerably less than what will be required if industries were to be concentrated further in a few urban centres.

6. SUMMARY AND CONCLUSIONS

All the available evidence suggests that the private enterprise ethic is essentially in harmony with the socio-cultural ethos as reflected in the political and economic realities of contemporary Sri Lanka. As such the PEPP should evoke a positive response from the Government, the business community and the population at large. The Project can be expected to have several beneficial spread effects including the development of entrepreneurial talent, spread of new technology and the diffusion of industry outside the metropolitan area of Colombo and, in its totality, contribute to a fuller and more efficient mobilization of the country's resources for economic development. The focus of the PEPP on employment creation and its indirect beneficial effects on agriculture should have an egalitarian impact on income distribution by raising the income levels of the poorer sections of the community. Improved incomes and reduced unemployment and underemployment in turn can be expected to have a stabilizing influence on the social and political life of the country.


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STATISTICAL APPENDIX

Table 1 - Growth Rates of National Income: Sri Lanka, '72-'81

<u>Year</u>	<u>% Growth Rate of GDP, at 1970 constant factor cost prices</u>
1972	3.2
1973	3.7
1974	3.2
1975	2.8
1976	3.0
1977	4.2
1978	8.2
1979	6.3
1980	5.8*
1981	5.8*

* Provisional

Source: Central Bank of Ceylon (1982)

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ENTREPRENEUR DEVELOPMENT IN SRI LANKA

1. Objective of the paper

The objective of this paper is to examine the various entrepreneur development programs conducted in Sri Lanka and identify the programs deserving external financial support for strengthening or expanding their activities.

2. Significance of entrepreneur development to Sri Lanka

Entrepreneur development is of vital importance to Sri Lanka due to the following main reasons:

Entrepreneur development is a means to self-employment in industry. Each self-employed entrepreneur as he develops his enterprise will eventually engage the services of others. Thus, it can help the country to a great extent in solving its unemployment problem as small industries utilize less machinery and more labour. Self-employment has important social implications as well; it is self-actualizing and self-satisfying, providing opportunity for initiative, creativity and leadership.

Capital and advanced technology are scarce resources in Sri Lanka. Small and medium-scale industries require relatively small amounts of Capital and Simple technology because of their small size and the non-complex production methods they use.

As such, it is necessary to develop a large pool of well trained, highly competent and motivated entrepreneurs in Sri Lanka from which the future leadership of the business community can emerge to ensure the continued development of the free enterprise system.

3. Institutions engaged in entrepreneur development

The institutions that have been conducting entrepreneur development programs in Sri Lanka are as follows:

1. Industrial Development Board
2. National Apprenticeship Board
3. Bank of Ceylon
4. National Youth Services Council
5. Open University of Sri Lanka

The following organizations have planned two new projects in the area of entrepreneur development:

1. Sri Lanka Chamber of Small Industries
2. Industrial Development Board

4. Details of the existing programs

Entrepreneur development programs of the Industrial Development Board (IDB)

The Industrial Development Board is a statutory body set up in 1966 under a special parliamentary act for the purpose of promoting industrial development in Sri Lanka.

The entrepreneur development programs conducted by this organization fall into two categories of clientele, namely, (i) program designed for potential entrepreneurs and (ii) program designed for existing entrepreneurs.

The program designed for potential entrepreneurs - Under this program, 5-day workshops are conducted in different districts

of the country through the regional offices of the IDB. Each workshop consists of lectures, discussions and demonstrations covering the following:

- (i) How to start a new industrial venture?
- (ii) Infrastructure facilities and inputs required by a small industrialist.
- (iii) Raising of capital procurement of raw materials and machinery, and recruitment of personnel.
- (iv) Production and marketing.
- (v) Practical demonstrations based on a few selected industries.

During the year 1931, 47 workshops have been conducted and the number of participants has amounted to 1000 approximately. The IDB has planned 47 more for 1932.

The program designed for existing entrepreneurs - Under this program, 2-day workshops are conducted for existing small industrialists in different parts of the country. They are organized by both the Head Office and the regional offices of the IDB with the main objective of educating existing entrepreneurs in the efficient management of their enterprises - - Cost of these workshops is to be shared by the participants.

The course content of a workshop consists of the following:

- (i) Facilities provided by the IDB to industrialists.
- (ii) Financial assistance provided by different banks and other commercial institutions.
- (iii) Tax reliefs and other incentives provided by the government.
- (iv) Industrial and labour regulations affecting small and medium-scale industrialists.

(v) Management of a small or medium-scale industrial enterprise. (Production, marketing, financial and personnel aspects of the enterprise).

During 1981, the IDB has conducted 49 workshops under this program in different parts of the country. An average number of industrialists participated at each of these workshops is 20. 50 similar workshops have been planned for 1982.

Program of the National Apprenticeship Board (NAB)

The National Apprenticeship Board is a statutory body set up by the government under a special parliamentary Act with the objectives of formulating, implementing and supervising a scheme of training to cover various categories of apprentices.

As a follow-up of the apprenticeship training programs, the NAB launched an entrepreneur development program on an experimental basis in 1980 for a limited number of its own apprenticeship alumni who had successfully completed the craft level apprenticeship training both in theory and practicals and obtained the craft certificate of proficiency.

On the basis of a systematic evaluation procedure, 10 young craftsmen were selected for this pilot project which was a 3-month institutional training program in entrepreneurship. The course content comprised the following 9 modular units:

- 1 - Introduction to Business
- 2 - Quantitative Methods
- 3 - Management of Resources
- 4 - Industrial Law

- 5 - Finance
- 6 - Marketing
- 7 - Management of Production Function
- 8 - Management of Personnel
- 9 - Identification, formulation and evaluation of projects

Although this training program was institution-based, the participants were taken out on observation tours to study organization systems and production systems. Furthermore, each one of them was required to formulate his project proposal in which he was guided throughout the course. The project was subsequently sent to the Industrial Development Board for approval and to the Bank of Ceylon for funding.

After completing this program, the NAB negotiated with the Bank of Ceylon to give the 10 participants investment capital upto Rs. 100,000 without the usual security guarantee. They too were required to contribute some capital themselves without relying entirely on the bank. Accordingly, after the completion of this special program, the 9 participants started industrial ventures at different times and the engineering personnel of the NAB guided the young entrepreneurs on the selection of site and in the setting up of machinery. They were also assisted in the formulation of production processes and in the maintenance of records and books of accounts. The senior officials of the NAB participated in the inauguration ceremony of each venture and periodical visits were made by the inspecting staff to assess the progress of the ventures.

However, the recent evaluation reports of the NAB reveal that the majority of entrepreneurs who obtained bank

loans to set up industrial ventures under this scheme have failed to repay the loans, and the recovery of money, has become difficult due to the lack of a security guarantee. This state of affairs seems to have discouraged the NAB in continuing its entrepreneur development program for further batches of craftsmen. According to a senior official of the NAB, no similar program will be offered in the immediate future.

Program of the Bank of Ceylon

The entrepreneur development program of the Bank of Ceylon is a project launched in 1991 by its Management Consultancy and Merchant Banking Divisions. This program falls into three distinct categories:

1. Self-employment project for university undergraduates.
2. Tiny sector development program.
3. Literature for small industry entrepreneurs.

Self-employment project for University Undergraduates - The objective of this exercise is to provide opportunities for a limited number of young undergraduates to undertake business, industry projects on the basis of self motivation and reliance, primarily as a source of economic activity and employment on profitable lines. The rationale is that many educated youth possess latent entrepreneurial talents and a desire or capacity to be self-employed, but many lack self-confidence to come forward for their own ventures. The motivation to take risks despite the frustration is not strong enough. Some needed opportunity/counselling, others knowledge on how to establish

and manage an industrial/business enterprise.

This program has been developed into a package consisting of the following basic features:

- (1) Potential entrepreneurs are identified, carefully selected and trained.
- (2) Their entrepreneurial capabilities are developed systematically.
- (3) They are equipped with basic managerial know-how and understanding.
- (4) They are assisted to secure necessary financial, infrastructural and related assistance.

The first batch of participants selected for this program are 25 undergraduates from the Faculty of Management Studies and Commerce of the University of Sri Jayewardenepura. They are still pursuing this training program. The continuation of this program for further batches of undergraduates will depend on the degree of response shown by the present batch to the prime objective of the program.

Tiny sector development program - This program is sponsored jointly by the Bank of Ceylon and the Dharmavijaya Foundation of Sri Lanka. The aim of the program is to identify certain small entrepreneurs and help them with monetary benefits and managerial know-how. Already a project has been started in Maharagama under the auspices of the Dharmavijaya Foundation of Sri Lanka where 26 young tiny sector entrepreneurs were selected and provided with a training program to modernize and upgrade their enterprises.

The program of training includes a six-day workshop covering the following topics:

1. Basic characteristics of a business.
2. How to select a business.
3. Characteristics of a successful entrepreneur.
4. Importance of Marketing.
5. Managerial control.
6. How the Industrial Development Board assists industrialists.
7. How to obtain bank loans.
8. Accounting for business success.
9. Management of Personnel.
10. An exercise on the preparation of a project report.

Arrangements are being made to expand this program to cover 7 more Dharmavijaya Foundation areas in the near future. It is important to note here that this program has been designed for the existing small entrepreneurs.

Literature for Small Industry entrepreneurs - It is proposed under this project to put out a series of literature/brochures for the benefit of small-scale industrialists. Action is under way to prepare the course material for these brochures and it is anticipated that at least 10 of these would be ready by the end of this year. This material is intended to give the reader information required for the commencement and operation of an industrial enterprise.

Programme of the National Youth Services Council

The National Youth Services Council which is a statutory body operating under the Ministry of Youth Affairs and Employment has conducted a series of workshops and seminars from time to time with the objective of developing entrepreneurial skills of young men and women who are interested in going into

self-employment. The officials drawn from the IDB, NAF and commercial banks have been utilized for conducting these programs.

The following topics have been covered in these workshops and seminars:

- (1) How to go into self-employment in industry.
- (2) Facilities and inputs required for setting up an industrial venture.
- (3) How to manage a business.

The program of the National Youth Services Council is a combination of both vocational training and entrepreneur development.

Certificate in Entrepreneurship of the Open University of Sri Lanka

The Open University of Sri Lanka is a fully-fledged national university established in 1980 under the Universities Act No. 17 of 1978. It has been designed to enable students to pursue studies mainly in their own time and in their own homes. This non-traditional university has adopted this multi-media learning system developed by the British Open University with modifications appropriate to the Sri Lankan scene.

The first program of studies designed by its Management Studies Division is a certificate course in Entrepreneurship. The first batch of students in this program commenced their studies in July 1982.

Aim of the course - This course is intended for school leavers who wish to go into self-employment in industry. It aims at

producing entrepreneurs by assisting students in understanding how a small industrial venture is to be started, operated and managed efficiently.

Duration of the course - One year

Curriculum - The curriculum of the course consists of four subject modules as follows:

- (i) Small and medium-scale Industries in Sri Lanka
- (ii) Production
- (iii) Marketing
- (iv) Accounting and Finance

(i) Small and medium-scale industries in Sri Lanka - The major topics covered include the nature, growth and scope of small and medium-scale industries in Sri Lanka; Inputs and infrastructure support required for setting^{up} an industrial unit; role of various promotional organizations; and management of the industrial unit.

(ii) Production - Selection of a product, factory layout, maintenance of plant and machinery, production planning, material procurement and inventory control, quality control, wage systems and incentives, and factory and labour regulations are the main topics covered.

(iii) Marketing - Marketing survey, channels of distribution, pricing, advertising and sales promotion, customer relations, sales analysis and problems are included as the main topics.

(iv) Accounting and Finance - Capital requirements, sources of finance, basic accounting concepts, preparation of final accounts of a Small Industrial Unit, cash flows, cash budgets, cost control methods, financial evaluation of an industrial venture and the preparation of a project report are the main topics covered under this subject module.

Organization of the course - For administrative and instructional purposes, the course has been divided into 10 blocks. Each block contains three units with an average of 3 lessons in each unit making a total of 30 lessons for the course.

Lesson materials and assignments - The lessons are sent to students in four packages. They include printed material consisting of correspondence lessons, recommended readings, and assignments. The assignments include both self-assessments and tutor-marked assignments.

Students are required to study the lessons and work on their assignments according to a time table provided by the University. Personal tuition and counselling are made available to the students through part-time tutors and counsellors who are recruited mainly from the staffs of the conventional universities and the polytechnical institutes. Tutors are expected to grade and comment upon the written assignments of students.

Seminars - Four seminars based on the four subject modules have been scheduled to be held at the major regional centres of the University. All the students, registered in the course are required to attend these seminars which will be conducted by a panel of experienced academics, professionals and industrialists. Film shows, and demonstrations are also expected to be included in these seminar programs.

Project Reports - In order to complete the course in entrepreneurship successfully, every student is required to prepare a project report on the setting up of a suitable small industrial venture. In addition to the written instructions given through the correspondence lessons, face-to-face guidance and counselling are to be provided to students individually by a panel of counsellors selected from the staffs of the Industrial Development Board, the National Development Bank and the conventional universities on the preparation of the project reports.

Method of evaluation and award of the certificate - For the purpose of determining results, the performance of students pursuing the course is to be evaluated on the basis of the following:

- (i) Tutor-marked Assignments.
- (ii) Final Examination conducted at the end of the academic year.
- (iii) Project Report.

Those who reach the required level of performance will be awarded the Certificate in Entrepreneurship.

Enrolment of Students - A total of 981 candidates who enrolled as the first batch of students in this program have commenced their studies in July 1982. The details of information on the number of candidates applied for and enrolled in the course on the medium basis are given in the following table:

Centre	No. of candidates applied for the course			No. of candidates enrolled in the course		
	Sinhala medium	Tamil medium	English medium	Sinhala medium	Tamil medium	English medium
Colombo	1320	60	202	405	22	98
Kandy	564	29	25	202	9	7
Hatara	362	3	6	104	-	-
Jaffna	7	167	30	-	49	10
Batticaloa	23	84	11	5	26	7
Ratnapura	139	1	5	37	-	-
Total	2415	336	279	753	106	122
	3030			981		

Of the total number of 3030 candidates who had applied for admission, 1229 were selected on the basis of both the results of an admission test and the marks given for relevance. In selecting candidates for the course, a greater weightage has been given to the relevance factor. For example, a candidate who had indicated his interest in setting up an industrial venture has been preferred to a candidate who sought admission merely for the purpose of obtaining an additional qualification. However, out of 1229 candidates who were selected for admission, only 981 have finally enrolled in the course. The reason for this appears to be the fact that certain candidates have experienced difficulty in paying the course fee of Rs.600, which is payable to the University by every student who is to be registered for the course. The University is making arrangements

at present to call for applications for the second batch of students. Negotiations are going on at the moment between the University and the banking institutions for exploring the possibility of arranging loan facilities to students who decide to set up industrial ventures of their own after successfully completing this program.

The New project of the Industrial Development Board (IDB)

Although the IDB has been engaged in conducting a 5-day workshop program for several years with the purpose of helping the participants to become actual entrepreneurs, the result has not been satisfactory. The number of participants who have taken steps to set up industrial ventures is less than 5 per cent. According to the IDB, two main reasons are attributable for this poor response. They are (i) the difficulty of selecting participants who are genuinely interested in becoming entrepreneurs and (ii) the inadequate duration of a workshop.

In order to overcome these shortcomings of the existing program and to make it a more result-oriented program a new scheme has been planned by the IDB. In the selection of participants for the program proposed in this scheme, several aspects such as the type of industry envisaged by the applicant, his age, present income, entrepreneurial ^{and} exposure as well as the indications of his entrepreneurial abilities and potentials are expected to be carefully assessed.

The duration of the program will be 5 weeks. The course content has been designed to include the following:

- A. Motivation module (4 days)
- B. Entrepreneurship and external environment module (1 week)
- C. Business Management module (7 weeks)
 - (1) General Management
 - (2) Marketing Management
 - (3) Production Management
 - (4) Accounting and Financial Management
 - (5) Personnel Management
 - (6) Project Development
 - (7) Business Games (2 days)
 - (8) Film Showings (4 hours)
 - (9) Plant Visits (1 day)

Since this is a residential training program, the IDB is planning to set up a special institute at the Pallekule Industrial Estate, in Kandy. The proposed scheme has been approved by the TechnoNet Asia. The UNDP has indicated its willingness to explore the possibility of assisting financially in setting up the training institute. However, the IDB will be in need of further financial assistance for conducting the proposed entrepreneur development program under the new institute.

The project designed by the Sri Lanka Chamber of Small Industries

The Sri Lanka Chamber of Small Industries which is the organization of small industrialists in Sri Lanka too has planned to set up a separate institute under the title of Entrepreneur Development Institute for the purpose of helping future and current entrepreneurs in developing their skills.

According to the President of the Chamber, the project is assisted by a foreign source of finance and the arrangements are made to set up this institute in Colombo before the end of this year.

Different entrepreneur development programs expected to be offered by the proposed institute would include both theoretical and practical aspects of training. In-plant training is to be an integral part of these programs, according to the President of the Chamber. Since the Chamber has a wide membership owning different types of industrial enterprises it is believed that giving trainees an inplant training will not be a difficult task for the proposed institute.

However, external financial support will be needed for organizing and conducting training programs under this institute.

6. How aid could assist the strengthening or expanding certain existing programs

Certificate Course in Entrepreneurship offered by the Open University of Sri Lanka - A careful observation and analysis of the existing entrepreneur development programs outlined in the preceding paragraphs reveals that the certificate course in Entrepreneurship offered by the Open University of Sri Lanka is comparatively the ^{most} comprehensive and ^{useful} entrepreneur development program that deserves aid for both strengthening and expansion. It caters to a large number of potential entrepreneurs at a time in all these three languages.

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Under this newly started program, the first package of lesson material has already been issued in the form of a printed text. The second package is about to be released from the printer and last two packages of lesson material are expected to be out in the printed form before the end of this year.

Although the correspondence lessons, assignments, seminars, and project work form a comprehensive program in entrepreneur development, it has been pointed out by the consultants and the university authorities that there is much room for revision, improvement and expansion of the existing lesson material and other elements of the program to make them more effective and useful to students.

According to the Vice-Chancellor of the Open University, the services of an American expert/advisor who has wide experience and knowledge in the planning and preparation of lesson material in entrepreneurship for distant students will be of great use to the University. Such an expert/advisor is needed for a period of 6-12 months mainly for guiding and assisting the local staff on this revision and expansion work. A financial grant too will be of use to the University to meet the expenditure that will be incurred on material and local staff required for this work.

The University has the capacity for effective management of this program. It has obtained part-time services of two consultants and a panel of visiting academics and professionals in addition to the internal staff.

Program of the Industrial Development Board (IDB) - Another entrepreneur development program deserving aid for strengthening and expansion is the 5-day workshop program of the Industrial Development Board. The duration of the program needs to be increased to make it a more fruitful project. This requires additional financial support. It is also necessary to adopt a more systematic method for selecting participants for this program.

Since the IDB has an experienced full-time staff in the head office as well as in the regional offices, it possesses the capacity to strengthen its entrepreneur development program.

7. Summary

The institutions that have been engaged in conducting entrepreneur development programs in Sri Lanka include the Industrial Development Board (IDB), the National Apprenticeship Board (NAB), the Bank of Ceylon, the National Youth Council, and the Open University of Sri Lanka.

Programs in Entrepreneur Development

The IDB program falls into two categories, namely, (i) the program designed for future entrepreneurs and (ii) the program designed for existing entrepreneurs. Under category one, 5-day workshops are conducted in different parts of the country. 47 workshops of this type have been conducted during 1981. Under Category two, 2-day workshops are conducted for the benefit of existing small industrialists. During 1981, the IDB has conducted 9 workshops under this category.

The IDB has planned a more comprehensive entrepreneur development program to be conducted as a residential training project under the Entrepreneur Development Institute that the IDB has proposed to establish in the near future.

The National Apprenticeship Board has conducted only one entrepreneur development program in 1981 as a follow-up of its apprenticeship training scheme. Ten young craftsmen who had successfully completed their apprenticeship training were given institutional training in entrepreneurship and assisted in setting up industrial ventures of their own. The response from the trainees has not been high enough to encourage the NAB in continuing the program for further batches of craftsmen.

The entrepreneur development program of the Bank of Ceylon has been a project organised by its Management Consultancy and Merchant Banking Division. It falls into three categories, namely, (i) Self-employment project for university undergraduates, (ii) Tiny sector development program and (iii) Literature for small industry entrepreneurs.

Twenty five undergraduates are presently undergoing training under the first category and one 6-day workshop has been conducted for the benefit of 25 young tiny sector entrepreneurs, under Category two. Under the third category, the bank has planned to put out a series of literature/brochures giving information required by persons who are interested in going ^{into} self-employment.

The National Youth Services Council too has conducted a series of workshops and seminars with the objective of developing entrepreneurial skills of young men and women who are interested in going into self-employment. This program aims at training the youth in a variety of crafts in addition to developing their entrepreneurial skills.

The recently established Open University of Sri Lanka has launched a more comprehensive program of study in the field of entrepreneur development. It is an one-year correspondence course designed for school leavers.

The curriculum of the course consists of four subject modules, namely, (i) Small and medium - scale industries, (ii) Production, (iii) Marketing and (iv) Accounting and Finance. Studies through correspondence lesson materials, recommended readings, assignments, seminars, preparation of project reports and personal guidance by tutors and counsellors are the principal elements of this program.

Those who successfully complete this program will be awarded the certificate in Entrepreneurship. As the first batch of participants in this program, 981 students have commenced their studies in July 1982.

The Sri Lanka Chamber of Small Industries has planned to set up a separate institute for the purpose of entrepreneur development. The programs envisaged by the Chamber are expected to include both theoretical and practical aspects of industrial training in addition to the development of entrepreneurial skills of individuals.

How aid could assist to strengthen or expand existing programs

The Certificate Course in Entrepreneurship offered by the Open University of Sri Lanka can be considered relatively as the most comprehensive and useful entrepreneur development program that deserves aid for both strengthening and expansion.

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It seems to a large number of potential entrepreneurs at a time in all the three languages.

It has been pointed out by the consultants of this program and the University authorities that there is much room for improvement, revision and expansion of the correspondence lesson materials that are being used by the present batch of students.

According to the Vice-Chancellor of the Open University, an American expert/consultant who has a wide experience and knowledge in the planning and preparation of lesson materials in entrepreneurship for distant students will be of great use to the University. Such an expert is required for a period of 6 - 12 months for guiding and assisting the local staff on this revision and expansion work. A financial grant too will be of use to the University to meet the expenses that need to be incurred on material and local staff required for this work.

Another entrepreneur development program that needs to be strengthened and expanded is the 5-day workshop program of the Industrial Development Board. It requires additional financial support to increase the program duration and systematize the method of selecting participants.

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MANAGEMENT TRAINING
FOR
PRIVATE ENTERPRISE PROMOTION
IN
SRI LANKA

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APPENDIX I- Management training
Institutes surveyed, and
Employers' representative organi-
zations consulted

1. INTRODUCTION

The purpose of this paper is the examination and evaluation of the existing primary institutional arrangements for meeting management training and development needs of the private sector of Sri Lanka. By doing so, the paper deals primarily with the task of:

- a. Highlighting the nature and extent of training and development activities undertaken by the various management training institutes and their relation to private enterprise,
- b. Assessing the capacity as well as the resource needs of the various management training institutes for meeting management training and development needs of the private enterprise especially in view of higher rates of future growth of investment and trade, and
- c. Suggesting ways of allocating and utilizing the currently available and forthcoming resources in order to meet best both short-run and long-run managerial needs of the private sector.

Any attempt to improve the managerial capabilities of the private enterprise in Sri Lanka is of vital importance to all those who are concerned with the promotion of private enterprise and its role in bringing about economic wellbeing. Management is understandably the most crucial input into any production process: it coordinates and integrates the other inputs -- labor, materials, machines, knowledge and techniques, etc. -- in such a way that the enterprise achieves its goals most rationally and efficiently. Until recently, the private enterprise in Sri Lanka had been neglected and therefore, it did not have adequate opportunity and reason to train managers of high calibre. Now, faced with the challenge of renewing and speeding up its activities, the private sector enterprise without the guidance of a competent team of managers, may look to one like an army

battalion mobilised for penetration without its colonels and brigadiers.

Because of the vital role of management training and development (MT&D) in promoting private enterprise, it is felt that those MT&D needs must be surveyed briefly. In light of this, the various management training institutes are surveyed in the areas of MT&D activities, resource allocation and utilization, and relationship of activities to private enterprise promotion. Upon the findings of this survey, a framework is designed to outline the ways in which the functions and operations of management training institutes can be rationally organized for meeting the demand for MT&D requirements of the private enterprise in Sri Lanka.

In order to collect information required for this paper, the major management training institutes which undertake activities related to private enterprise were visited. Some organizations which represent the private sector and its promotional efforts were also consulted. The management training institutes surveyed and the business representative organizations consulted are listed in Appendix I.

2. MANAGEMENT TRAINING AND DEVELOPMENT NEEDS OF THE PRIVATE SECTOR

Supply must meet the needs. Therefore, the needs must be studied and clarified before looking into the questions of supply.

Management training and development (MT&D) needs of an enterprise depend on a large array of factors. Some of them are associated with the natural growth pattern of the firm, and some others with the nature of industry or business activity of the firm.

While those factors are important, there seem to be still some other considerations which call for attention in the determination of MT&D needs. Those are the environmental factors which influence the firm. One should not forget the fact that the private enterprise in Sri Lanka is in an environment of underdevelopment which is quite distinct from that of a developed economy.

The MT&D needs of the private sector must be assessed by taking into account of all the three types of factors as they are relevant to the enterprise(s) in question.

The environmental factors affecting MT&D needs require further elaboration. The economy of Sri Lanka -- its present context -- has to be viewed in the perspective of its gradual transition from one of semi-feudal to a modern economy. This suggests that the society, its all members and institutions may not have well succeeded in acquiring the essential characteristics of entrepreneurial and managerial talents prevalent under or required by free enterprise system.

More specifically, one may expect the people in such an economy in transition to value the pursuance of short run goals and to neglect the long range ones. Failure to see relationship between long-run and short-run effort may result in the lack of managerial determination to a integrated and planned effort to continue business and search for stability and growth. A private sector cannot grow without

such drives being cultivated as intrinsic values of its managers. This is one reason to feel a need for basic preparation (education) of managers on a long run basis such as 1 to 2 years at least.

In the circumstance, the potential investor tends to be interested in the ventures which make a fast buck for him. This is a major reason for the widespread interest among investors/entrepreneurs to go into enterprises which are commercial rather than producing and selling. A private sector cannot possibly be promoted solely on the basis of commercial activities; it needs to enter strongly into the arena of producing as well. Managers who are in commercial business do not fit well into the organizational requirements of production. Thus, there is a second reason to feel a need for basic preparation of managers on a long-term basis.

The history of business success is the history of successful innovation in enterprises. Not only that the instinct for innovation is lacking in our managers, but also more seriously, they do not appreciate the role of innovation in successful business. Unfortunately, our managerial thinking is often shaped by anti-innovation attitudes which are perhaps derived mostly from the underdeveloped society. Management training and development has a role to play in changing attitudes and cultivating innovation-orientation. Thus, there is a third reason for considering basic preparation of managers on a long-term basis.

On the same token, there are a host of other characteristics of managing which have to be cultivated in the Sri Lankan manager. They range from the lack of basic traits such as productivity orientation/efficiency orientation including lack of time consciousness, to lack of prudence, system, and business ethics. Again, these are areas in which basic managerial preparation is required on a long-term basis.

Lack of experienced managers has always been a problem for many especially for those who venture into new business. This should not be considered as a problem of numbers alone, ie., in quantitative terms. Qualitatively speaking, to what extent can a businessman depend on a Sri Lankan manager with experience? What does managerial experience in an enterprise in an underdeveloped economy tell a prospective employer? In the developed country, experience is reasonably reliable. But in the underdeveloped one, one's experience may be a handicap in adjusting to dynamic circumstances, or may be an obstacle to the growth of a firm. Short-term management training has a special role to play in this case.

Short-run management training is desirable, inter alia, for:

- molding college/university graduates to the needs of first job,
- imparting skills required in the change of jobs/change in jobs,
- imparting knowledge to prevent managerial obsolescence, and
- upgrading managerial competence in given areas of concern.

What is the general outlook for MT&D needs of the private sector? A recently concluded study of small and medium scale industry in Sri Lanka concludes that extra-firm factors are more important than manager's role in bringing about growth to many firms in Sri Lanka. Further, "It seems that most of the managers look at cost elements in terms of what is paid for materials, labor, capital funds etc., and pay less attention to the elements of cost involved in the behavioural aspects of organization".¹

1. G.M.H. Wijewardene, The Growth Patterns of Small and Medium Scale Industries in Sri Lanka, Faculty of Management Studies and Commerce, University of Sri Jambewardene-pura, (1982), Unpublished Doctoral Thesis, pp. 228, 29

What are the specifics of MT&D needs in the promotion of private sector? Consultations with employer representatives and 12 managers from private industry and related activities who are studying for MBA degree at the University of Sri Jayewardenepura, some understanding was possible about the direction of MT&D needs and a classification there of as follows:

(i) Areas of MT&D Requiring Short and Long Run Consideration

<u>Areas of MT&D</u>	<u>Length of MT&D</u>	
	<u>Short run (1)</u>	<u>Long run (2)</u>
	<u>First priority</u>	<u>Second priority</u>
Production Management: Operations management, Materials management	1, 2	2
Projects Management: Preparation, evaluation implementation, & control	1, 2	2
Marketing: Marketing management, international marketing, market research	1, 2	2
Administration & Policy:	2	1
Human relations and personnel management	2	1
Management for bankers	1	2
Business communications, & data processing	1, 2	2
Financial markets	1, 2	2
International trade and investment	1, 2	2

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(ii) Level/type of MT&D Needed

	<u>Short-run (1)</u>	<u>Long-run (2)</u>
	<u>First priority</u>	<u>Second priority</u>
Top management	1	2
Middle management	1, 2	2
Lower/Supervisory Mgt.	1	2

(iii) Management Support Services

- (a) Research and information service with respect to the Sri Lanka capital market
- (b) Business information service catering to the needs of private enterprise
- (c) Management consulting services for private enterprises

It is also felt that the private enterprise managers and owners need to be educated to be able to understand and appreciate the role of MT&D, and encourage them to plan ahead for MT&D requirements of the firm.

3. MANAGEMENT TRAINING INSTITUTES

This section describes the objectives, functions and history of the principal management training institutes which have a relation to the private sector in Sri Lanka.

(i) Centres for Higher Learning and Development

- (a) Faculty of Management Studies and Commerce,
University of Sri Jayewardenepura.

Management education is provided at both undergraduate and postgraduate levels in Sri Lanka only at the University of Sri Jayewardenepura. Other universities have refrained from deep involvement in management education primarily because the Sri Jayewardenepura (formerly known as Vidyodaya University) has been the centre for management education for over 2 decades, and because the other universities could not attract adequate staff in the fields.

Undergraduate studies in business administration was started at the university of Sri Jayewardenepura in 1960. In 1973 the University established a separate Faculty for Management and Commerce to become the only university faculty in this discipline even today. The Faculty is comprised of three departments and a postgraduate division.

Its objectives are to promote management education, research, and practice in Sri Lanka at all levels of organization.

Principal Functions and Programmes of Activity:

- (a) degree programmes at bachelor's level.

Four degree programmes each running for 4 years are conducted at a time. They are:

- Business Administration (B.Sc.)
- Estate Management and Valuation (B.Sc.)
- Commerce (B.Com.)
- Public Administration (B.Sc.)

- (b) degree programmes at master's level.

Two degree programmes each running for 2½ years are conducted at a time. They are:

- Public Administration (MPA)

(c) training: Its faculty (permanent staff is over 30 members) constantly participate as resource personnel/trainers in short-term training programmes organized by industry. Especially, the foreign professors attached to the faculty have become important resource personnel to the concerned industry in recent years.

(d) Both undergraduate and postgraduate students engage themselves in research projects leading to research papers/dissertations/theses where a large number of topics are chosen from/in relation to private sector organizations, co-projects.

(b) University of Colombo

The university of Colombo, which claims its ancestry to the first university set up in Sri Lanka in 1942, operates independently since 1978. Its objectives in the area of management are:

- " - to enhance the quality of managers, executives, and administrators already in service, and
- to introduce these personnel to modern theories and practice of management and administration."

Principal Functions and Programmes of Activity:

The university conducts an Executive Diploma in Public Administration/Business Administration. This is an extension course started in 1981 for managers in both government and business. At present, it does not have a special institution to run this programme of studies. It is managed by an advisory committee set up in the Faculty of Arts, and lectures are conducted by drawing personnel from outside organizations. It is a part-time course whose duration is 12 months (30 weeks).

(c) The Open University of Sri Lanka

Set up under the Universities Act No.16 of 1978, the Open University has been in operation from 1981. It prepares its own courses and offers its own degrees, diplomas, and certificates. Persons aged 18 and over can pursue courses leading to above qualifications mainly in their own time and in their own homes.²

Activities in the area of management have not yet been fully developed and therefore, objectives are not clearly set.

Principal Functions and Programmes of Activity:

Management education and training is a declared function of the Open university. But it has not yet been able to draw personnel to work on a programme of activity. However, it has been able to launch preliminary work leading to the conducting of a certificate course in Entrepreneurship.

(ii) Professional Institutes

The Institute of Chartered Accountants of Sri Lanka

The Institute has been in operation since 1960. It was established by the Parliament, by the Institute of Chartered Accountants' Act No. 23 of 1959. The primary object of the institute is regulating and controlling the profession of accountants and auditors in Sri Lanka.

Principal Functions and Programmes of Activity:

The functions as implied in the original Act and subsequent laws enacted by Parliament include conducting courses, examinations, and supervising training leading to professional qualifications in accounting and auditing, and promoting education, training and development of persons in accounting and related subjects.³

(a) Courses and supervision of training in the following levels of accounting, leading to Professional Qualification of Chartered Accountant:

Preliminary level
Licentiate level
Associate level - I
Associate level - II

- (b) **Course on Business and Financial Administration:**
This course is designed for the members of the Institute (Chartered Accountants); it aims at broadening the perspective of the role of accountant. Duration is 6½ months and conducted by the School of Business which is a branch of the Institute.
- (c) **Course on Management in Developing Organizations:**
A short course whose duration is 1 to 2 weeks is designed for accountants in organizations. Conducted by the School of Business.

(iii) Other Institutes

a. National Institute of Business Management (NIBM)

The NIBM was established in 1968 as an Agency of the Industrial Development Board of Sri Lanka under the purview of the Ministry of Industries and in collaboration with the UNDP, with ILO as the executing agency. On the 1st of January 1977 the institute was incorporated under the National Institute of Business Management Law No. 23 of 1976.

Among its objectives are:

- development of managers and supervisory staff of industrial and commercial undertakings both in the public and private sector; and training and educating workers for creative participation in management,

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2. For further details, see General Information, Part One, The Open University of Sri Lanka.
 3. For further details, see, the Institute of Chartered Accountants (Amendment) Law No. 34 of 1975, and Student Guide, Institute of Chartered Accountants of Sri Lanka, pp. 1-4.

- provision of specialist services in management to government and private organizations in establishing performance standards, improving productivity, etc.,
- undertaking research and gathering data on aspects of management and relevant socio economic phenomena, and,
- providing management information services to outside organizations and training personnel in computer programming

Principal Functions and Programmes of Activity:

Training services are directed to management and supervisory training. Priority is given to integrated in-house training. Programmes are on a wide range of topics and are for clerical, supervisory, junior, middle, and senior management. Most programmes are for 1 week or occasionally 2 to 3 days. The longer programmes are Diploma in Business Management, Diploma in Industrial Engineering, Diploma in Marketing, Diploma in Personnel Management, and Diploma in Administration & Company Secretaryship. The duration range from 6 months to one year.

The NIBM undertakes research projects mostly in government owned corporations at the present time. It renders an extensive consultancy service to both public and private organizations which has become a major source of income to the institute in recent years.

b. National Institute of Plantation Management

Established in 1979 to provide training facilities and programmes for all categories of employees working in plantations in the public and private sectors; to provide diploma courses in association with the Tea, Rubber Research and Coconut Research Institutes and other related institutes; to sponsor and hold seminars, workshops and conferences and publish in connection with plantation management and

development; and to carry out research into plantation management and labor relations. The managing agency of the institute is the Ministry of Plantation Industries

Principal Functions and Programmes of Activity:

The functions of the Institute revolve around training and development of various categories of personnel involved in the plantations: superintendents, assistant superintendents, factory officers, field officers, and office personnel. It has been able to put up two issues of its own journal which caters the plantation employees in particular.

The institute has conducted so far three correspondent courses each running for one year. The courses were in accounting, book-keeping, and management of life stocks. Among the series of seminars organized is one on quality control for top managers of plantation estates. The majority of plantations are now owned and managed by the state.

5. SURVEY AND ASSESSMENT OF INPUTS INTO MANAGEMENT TRAINING ACTIVITY

The capacity of MT&D depends largely on the resource inputs of the training institutes. In this section, therefore, an assessment is made of the four types of resources: trainers/resource personnel available for training and development; library facilities; physical facilities; and finance.

(i) Trainers/resource personnel available for MT&D by the institutes

An account of the trainers/resource personnel available for 1982/83 at the training institutes is given in Table 1. The personnel are categorized into permanent and visiting staff (local and foreign), and an attempt is also made where possible, to associate them with the programmes of activity.

The assessment of strengths of personnel of each institute on a comparable basis is difficult due to many reasons. The difficulties include (a) variation of qualifications and experience, (b) variation of time devoted to training vs. other activities of the institutes, (c) involvement of visiting staff whose time devoted to training is variable, (d) variation in the type of training activity involved, and some more. Therefore, a quantitative assessment falls short of any useful purpose.

To be realistic, assessment of training/resource personnel must be made in conjunction with the training programmes discussed in the previous section and the next section. However, a few words about the role of staff in each institute shall throw some light on this manpower aspect of the total inputs into management training.

The university of Sri Jaywardenepura permanent staff is engaged primarily in educational and training activities related to its degree programmes. The Postgraduate Division of the Faculty of Management Studies and Commerce employs a significant number of foreign professors who come to the faculty

as part of two link programmes with universities in Canada and Belgium. Under the Canadian link project, three professors come every year (until end of 1984), each for a period of 4 months. Similarly, the ~~ix~~ professors from Belgium come for a period of 6-8 weeks. They engage themselves in teaching for MBA students, research, and conducting seminars/workshops to private sector managers. Internal staff include 4 Ph.D.s and 13 master's degrees in management and/or allied subjects. Six staff members are studying for higher degrees abroad.

Staff at the Colombo University programme in management is basically drawn from local professionals in government and business organisations to conduct lectures in the evenings. Staff at the Open University is comprised of lesson writers who undertake assignments on a fee basis to run correspondence courses. The Institute of Chartered Accountants has designed its management course and professional accountants courses by relying upon again the visiting staff. The NIBM on the contrary has a large internal staff most of whom have acquired professional qualifications in addition to their basic degrees. The NIPM is a young institute which highly depends upon visiting staff chosen from various organizations to meet its needs in conducting courses in practical accounting etc. and ad-hoc seminars for superintendents and other managers of plantation crops.

(ii) Library Facilities

The library facilities available at the institutes vary in terms of volumes of books/journals and access to them. Access is primarily only for the members/students/participants of the institutes concerned. The degree of access also varies according to the type of student/participant in programmes. An account of the library books and journals is given in Table 2.

Table 2 - Volumes of Books/Journals
Available in Libraries of
the Training Institutes

Institute	No. of Volumes
University of Sri Jayewardenepura	8,000
University of Colombo	600
Open University	220
Institute of Chartered Accountants	2,680
National Institute of Business Management	10,000
National Institute of Plantation management	112
Total	21,612

From the above table it is clear that the total number of volumes available is 20,000. The volumes listed under the University of Sri Jayewardenepura include management and related subjects as well. In the case of Colombo University the volumes listed are mainly those which are made available to the students in the Diploma programme, and received by way of donations from the Asia Foundation.

(iii) Physical Facilities

The physical facilities considered here include: room facility for lectures, seminars, workshops; residential facilities for foreign professors/resource personnel, and trainee- participants; teaching aids; and printing and duplicating facility.

The university of Sri Jayewardenepura has its own lecture room facilities for 1,100 undergraduates, and 40 postgraduate (MBA/MPA) students. It also provides residential accommodation for three foreigners in a separate bungalow located in-campus. This housing complex includes: two rooms per person, bath-rooms attached, air conditioning, and cooking facility.

Table 1 - Trainers/research or resource personnel available for training activities of the institutes 1982-83

Institute	Programme	Duration & medium of instruction	Number of staff personnel		
			permanent	visiting local	visiting foreign
1. Faculty of Management Studies & Commerce, Univ. of Sri Jayewardenepura	1. Master of Business Administration(MBA)	2½ years	9	8	10 ^a
	Master of Public Administration(MPA)	English			
	2. Bachelor of:	4 years			
	-Business Admin.	(each prog.)	11	7	-
	-Estate Mgt. & valuation	Sinhala	2	7	-
	-Commerce ^b	Sinhala/Eng./Tamil	11	16	-
-Public Admin.	Sinhala	6	5	-	
	Total		39	43	10
2. University of Colombo	1. Executive Diploma in Public/Business Administration	12 months	3	8	-
		English			

a. Duration of stay vary from 2 to 4 months.

b. Commerce programme is available in Sinhala, English, and Tamil for the year 1982.

Table 1 continued.

Institute	Programme	Duration & medium of instruction	Number of staff personnel		
			permanent	visiting local	visiting foreign
3. Open University	1. Certificate in Entrepreneurship	2 years Sinhala	1	13	1
	2. Diploma in Management (under consideration)	2 years	-	-	-
4. Institute of Chartered Accountants	1. Dip. in Business & Financial Administration	6½ months	-	25 ^c	3 ^d
	2. Chartered Accountants	4 years English, Sinhala	2	61	-
	Total		<u>2</u>	<u>86</u>	<u>3</u>
5. National Institute of Business Management	1. Diploma in:	Mostly 1 year	47	N.A.	-
	- Business Mkt. *	Eng/Sinhala			
	- Industrial Engineering *	English			
	- Marketing *	Eng/Sinhala			
	- Personnel Management *	Eng/Sinhala			
	- Administration & Company Secretaryship *	English			
	- Computer System Design	English, 6 months			
2. Short courses and Seminars/workshops	Eng/Sinhala 1 to 2 weeks				

Table 1 continued.

Institute	Programme	Duration, Medium	Number of staff personnel		
			permanent	visiting local	visiting foreign
6. National Institute of Plantation Management	1. Three correspon- dence courses in accounting & bookkeeping	1 year Sinhala	3	30	-
	2. Course/seminar short-term	Upto 2 weeks			

c. Includes guest lecturers as well.

d. Duration of stay per person is less than a month.

• Sessions are held on one or two days per week

The Faculty also has a mini-computer, one overhead projector, and a few other teaching aids.

The University of Colombo uses rooms of the Science Faculty to conduct classes in the Diploma-programme. It does not have teaching aids and equipment at the present time.

The Open University's system of education is different from the conventional method. It proposes to conduct classes on a regional basis at a subsequent stage as a supplement to the method of correspondence. However, it has received a good collection of teaching aids and equipment from the UNDP project which will be used immediately for conducting courses in science.

The Institute of Chartered Accountants is located in a spacious building in Colombo 7, where most of the lectures are held. Some of the classes, however, are conducted in hired-places elsewhere. Some teaching aids, duplicating facilities etc. are available.

The NIBM is also located in a multi-story building in Colombo 7 where most of the lectures, seminars, workshops are held. It has got modern teaching aids, duplicating and printing facility, and large seminar halls adequate to house about 75 people at a time.

The NIPM is located in Colombo 3 in a few rooms of a building. It does not have lecture rooms of its own. Duplicating and reproduction facilities are available.

(iv) Methods of Finance

University of Sri Jayewardenepura programmes in management at undergraduate level are entirely financed by government. The current costs of the postgraduate programme are covered by programme fees charged on participant students. Capital expenditures are supposed to be met by the government through annual budgets.

Management education programmes of the other two universities mentioned above are run at the expense of student fees. Capital expenditures are to be met by government annual allocations.

The Institute of Chartered Accountants receives about 1/3 of its funds from government, and the rest is earned by way of students fees and membership fees etc. The NIEM's finance come from three major sources: Capital expenditure is financed mainly by government grants; 50% of the recurrent costs are earned by training programme charges; 30% from consulting and research work; and the remaining 20% from miscellaneous avenues. The NIPM runs on government funds mainly. The FAC has contributed US\$40,000 to its capital budget, and about 20% of recurrent costs are earned by way of programme fees of students.

5. SURVEY AND ASSESSMENT OF MANAGEMENT TRAINING AND RELATED PROGRAMMES

After the survey of inputs into the training programmes of the institutes, it is appropriate to survey and assess how the resources are being utilized for training purposes by the institutes.

Some preliminary information in this regard is given in Table 3.

Programme outputs, measured in terms of students/managers trained, are such that the large proportion of training is concentrated in undergraduate studies at the university level. A recent government study (unpublished) shows that on a comparative basis, the cost per student in management education at university level for the government is about 50% of that of producing an arts graduate, and 8% of that of producing a science graduate!

At postgraduate level, what can be expected in the near future is about 30-35 MBAs MPAs. In Canada, in a developed country, universities enroll as much as 20,000 annually. We are enrolling only 40 this year!

At the level of diploma the annual intake is not more than 200 per year, in all the institutes in Sri Lanka, including those outside the universities. The total number of diploma holders in Sri Lanka is approximately

400. A little away from the main stream of management education and training, the Chartered Institute has put out nearly 1,000 qualified chartered accountants. Its activity in business management is comparatively marginal and recent.

Some strengths of the training programmes are also to be pointed out. In terms of quality of education and training, and the professional character and calibre of participants, the MBA programme at the university of Sri Jayewardenepura remains far above all other programmes and training activities undertaken at this time in Sri Lanka. The foundation for the programme was laid with the participation of an American Fulbrighter who spent a full academic year with the programme in teaching courses and developing local case studies. The organization of programme and teaching level and style have been attractive to foreigners in universities of many countries including Canada, Belgium, France, and recently some developing countries.

After graduation, MBAs are expected to gain better organizational positions in their own organizations or in other places. In any case, they are expected to give impetus to managerial thinking, and more light to positions of propulsion in organizations in Sri Lanka.

A weakness of the programme revolves around the question of maintaining the quality of programmes without assured support of foreign universities for some time to come. The location of the university which is 6 miles away from the commercial capital of Colombo is another disadvantage for the programme.

To the contrary, the Colombo University is located in the heart of the city and thus it is able to draw students as well as visiting staff. All other institutes are located in Colombo proper in suitable locations. The Chartered Institute is known for its ability to secure and maintain high quality in its programmes. A weakness of this institute is the lack of internal staff for education and training purposes.

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Table 3 - An Account of Training Programmes - 1982

Programme name	Duration	Frequ- ency	No. of courses	No. of hrs. per course	No. of participants	Type of student participant
			(in a week)			
1. UNIVERSITY OF SRI JAYEWAP_						
DEEFPURA						
Master of Business Adminis- tration (MBA)	2½ years	daily	20	42	30	Middle/top managers holding unv. degree. Part-time
Master of Public Adminis- tration (MPA)	-do-	-do-	20	42	12	- do -
BSc. Bus. Admin. (Special)	4 years	-do-	22	120	380	High school student with commerce/econ. accountancy
BSc. Estate Mgt. & Val. (Spcl)	-do-	-do-	22	120	100	-do-
BCom. (Spcl)	-do-	-do-	22	120	350	-do-
BSc. Pub. Admin. (Spcl)	-do-	-do-	22	120	360	-do-
2. COLOMBO UNIVERSITY						
Diploma in Public/Business Administration	1 year	daily	6	60	80	Executives in organizations. Part-time
3. OPEN UNIVERSITY OF SRI LANKA						
Programmes yet to be launched						
4. INSTITUTE OF CHARTERED						
ACCOUNTANTS OF SRI LANKA						
Diploma in Business and Financial Administration	6½ months	4 days	6	20	60	Accountants, Graduates with 3 years of mgt. experience

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Table 3 continued.

Programme name	Duration	Frequency	No. of courses	No. of hrs. per course	No. of participants	Type of student/participant
INST. OF CHARTERED ACCT. Continued.						
Chartered Accountancy programme	4 years	daily	20	20 to 60	11,446 ^a	High school students, accountants, graduates
5. NATIONAL INSTITUTE OF BUSINESS MANAGEMENT						
Diplomas	1 year or 6 months	week end	8 to 10	30 to 40	90 [*]	Practising managers from public/private sectors
Short courses/workshops	Less than 2 weeks	several per month	---	---	1593 [*]	Managers of various types
6. NATIONAL INSTITUTE OF PLANTATION MANAGEMENT						
Correspondence courses	1 year	weekly	6-8	---	934	Lower/middle level plantation managers

a. Includes all students registered for year 1982 at all the four levels of study: Preliminary = 7,132; Licentiate 3,864; Associate level I, & II = 450

* Data for year 1981.

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4. PROBLEMS OF MANAGEMENT TRAINING IN RELATION TO PRIVATE ENTERPRISE

The management training institutes in Sri Lanka are not primarily designed for the purpose of meeting private sector needs. These institutes were developed by the successive governments after independence in 1948, in order to deal with the needs of the growing public sector ~~XXXXX~~. However, these institutes were engaged in certain activities related to the private sector for many years. During the past five years, the institutional tendency toward the private sector is quite visible. Support of the private sector to promote training by other institutes is also important in explaining the extent of relations between the two sides.

The private sector, as usual in underdeveloped countries and some times even in the developed countries for that matter, does not plan training requirements in such a manner that the training institutes can establish a continuous link with the enterprises. Private firms do not always value the input of training as much as they should, and seem to lack high confidence in the training institutes' capabilities to contribute to enterprise promotion. While there are reasons for the private sector to isolate itself from the training institutes, there are good reasons to recognize the importance of communication between the two parties.

Communication is lacking not only between the training institutes and private sector, but also among the training institutes themselves. Competitive mind, jealousies of each other, and institutional preoccupation do not certainly encourage institutional collaboration. The fact that each can benefit from each other, and render a better service to the business is yet to be sold, specially to those who run our institutes.

Training, by itself, is a skill. It is a skill which has to be developed continuously. As much as the knowledge in management, teaching and training methods too are subject to change. Exposure and upgrading of skills by the trainers is very rare, may be due to lack of opportunities for them to improve themselves. This is one of the reasons for not been able to fully utilize some of the teaching aids available at certain institutes.

Every institute complains of the inadequacy of physical facilities available for classrooms etc. Inadequacies are strongly felt in the provision of housing accommodation for the foreign professors who come to the institutes. The institutes cannot find adequate funds to find hotel accommodation for the foreign visitors. The university of Sri Jayawardenepura is the only institute which has some facility for visiting foreigners. The visitors would like to be closer to the institutes concerned, and looked after personally when they are on short-term assignments. Interaction between the local staff and the visitors become less than optimal and more problematic when the visitors are away and involvement is difficult.

Training programmes almost exclusively utilize or depend rather, on foreign material which do not necessarily meet the local training needs all the time. Lack of local research and concerted effort at building up a body of local literature seem to account for this gap.

The continuity in training is vital for success of training. Training is not planned on either side: supply or demand. Some infrastructural development in other countries which have seemingly found indirect solutions to such situations are the developed business communication systems by which firms can feel togetherness, sharing of information, and pooling of funds for training and development programmes. Followup activities in training seem to fall out side of the scope of responsibility, at least as it looks today, of any institutes providing training.

7. STRATEGY AND FRAMEWORK FOR TRAINING

Utilization of scarce resources to meet objectives means management than economics. It is unfortunate that the management training institutes do not consider the best utilisation of their resources within a wider framework involving more than a single institute.

Each training institute can benefit by collaboration than by competition while doing a better service to the industry. A strategy that would seem attractive to all the training institutes, at least theoretically, is to design resource utilization on the basis of institutional interdependence rather than independence. Independence prevents planning, economy, and promotes duplication and waste.

It may be useful for the institutes to have a common understanding as to the major areas of training activity that each should be mainly responsible. Higher learning, education, long run education and training can be mostly the responsibility of universities. Non-university institutes may cater to specific and short-run needs of management of the private sector. Institutions can collaborate, however, in the conduct of these programmes. It may come in the form of sharing/exchanging trainers, library facilities for trainees, and physical facilities such as lecture/seminar rooms. Training programmes can be designed to be undertaken jointly by a number of institutes. Institutes can specially cooperate in forming teams to study common problems, consultancy requirements, and specific problems of firms, as well as to conduct in-house training and development in the private enterprise itself.

While the university of Sri Jayewardenepura (already having housing accommodation for foreign visitors which is rent free facility) can be the centre for foreign personnel the NIBM can be the main venue for training at high level and short duration (where physical facilities are available for seminars). The role of the NIBM in this regard can also be expected from the Chartered Institute. All the institutes have staff interested and capable of forming into teams for research, consultancy, and in-house training.

C. Programming and Resource Needs

In the context of rational programming by the training institutes for maximal utilization of resources, the following needs are felt:

1. Training depends largely on the quality of trainers. Not only the training for managers but also, the training of trainers is required in the context of Sri Lanka. In considering the areas of training which the private sector feels most inadequate, it seems desirable to strengthen the training staffs of the institutes. Foreign professors, resource personnel or technical assistance will be highly useful in the following areas:

Production Management
Projects Management
Marketing
Business communications
Data processing/ Computer science
Trade and Investment

Personnel can be housed primarily in association with the MBA programme at Sri Jayewardenepura.

2. Library books and journals in Management, and English are required mainly for the universities and the Chartered Institute. Education of English language is vital for management training.
3. The universities require teaching aids. These include: taped programmes to be used with the mini-computers; mini-computers for trainers use; Word-processors; duplicating machines; Electric type writers; Filing cabinets; magi-boards and flip charts. None of these things is available for use in management training in the universities.
4. Funding for research, communication and information services is another area requiring the attention

of the training institutes. One institute like the Chartered Accountants, where there is a research and training division can promote a research fund which can be used by teams undertaking research in areas relevant to private enterprise.

The private sector needs upto date business performance information, and information on product markets, financial and capital markets, and training programmes etc. A service in the form of a weekly publication useful for business can be rendered by an Institute such as the NIBM where there is printing facilities are available to some extent. Further needs are to be studied. The institutes must work out a common programme for the purposes outlined above.

5. Foreign visitors to Sri Lanka need housing accommodation. As an alternative to private housing and hotel accommodation which are expensive it may be desirable to promote housing facilities at the training institutes, where possible. For example, the housing facility available for foreigners at the university of Sri Jayewardenepura, where two rooms are already air conditioned, will need further air conditioning of more rooms, further equipment for hot water supply, and better and enlarged facility for storing foods. The university can share other expenses of up-grading the house, in addition to its bearing of running costs, and rent.

APPENDIX I

MANAGEMENT TRAINING INSTITUTES SURVEYED

Faculty of Management Studies and Commerce,
University of Sri Jayewardenepura, Nugegoda

University of Colombo

The Open University of Sri Lanka

The Institute of Chartered Accountants of Sri Lanka

National Institute of Business Management

National Institute of Plantation Management

Employers' Representative Organizations Consulted

The Ceylon National Chamber of Industries

Greater Colombo Economic Commission

Hattori National Bank

Bank of Ceylon

ANNEX I

POTENTIAL PRE-FEASIBILITY STUDIES AND INDUSTRIAL PROFILES
(Source Nathan Report)

<u>PRODUCTS</u>	<u>Estimated Investment Potential</u>	<u>No. of Studies/Profiles</u>
* Mangoes/Avocados (fresh, canned, jarred)	2 - 5	5 - 10
* Tuna (including shore processing facilities)	10 - 15	1
* Fresh water prawns	2 - 3	5 - 10
* Vegetables (canned, jarred, frozen)	5 - 10	5 - 10
* Oil seeds for export and oil-cake for domestic poultry, fish farming and dairy industry	open ended	10 - 15
* Cut flowers	.5	3 - 5
* Gem stones - jewelery design	1.5	3 - 5
* Graphite exploitation	open ended	1 - 2
* Pigments and paints	2 - 3	5
* Titanium	open ended	1 - 2
* Soya beans, and bean processing	2 - 5	5
* Glass plant - jars, sheets	1.5 - 3	1 - 3
* Ceramicware	.5	1
Filled milk	.5	1
Spice packaging	relatively small	-
* Rubber products (sports equipment, household, and industrial items)	open ended	5 - 10
* Instant tea production and other tea products	2 - 3	5
* Boats (fibre glass) for export 10-45 ft.	2 - 3	2 - 4
* Broiler - chicken operation	3 - 10	1 - 3
Fishing nets for export	.2	1

<u>PRODUCTS</u>	<u>Estimated Investment Potential</u>	<u>No. of Studies/Profiles</u>
Leather goods	1 - 2	2 - 3
Coir products	.5	2 - 3
Soap	.5	1 - 3
Toothpaste and pharmaceuticals	2 - 3	1
Cocoa & Chocolate	2 - 5	1
* Agricultural machinery components	2 - 5	2 - 5
Ship container production	.5	1
Alcohol		
Industrial/Beverage	1 - 3	2 - 3
Ship building and repair	3 - 10	1
Furniture (office and home)	.5 - 2	2 - 3
Bicycle and motorcycles	1 - 10	1
Electronic	open-ended	5 - 10
Electric appliances	open ended	5 - 10
Fruit (fresh, frozen, canned & juices)	5 - 10	5 - 10
* Paper recycling	1 - 10	1
Plumbing supplies and equipment	3 - 5	2 - 4
* Handicrafts	1 - 3	1 - 2
Masks		
Batiks		
Wood carvings		
Rings		
Baskets		
Handloom items		
Wicker/cane		
Pottery		
Filigree jewelery		
TOTALS	59.7 - 133.7	96 - 160

* Statements involved in Nathan Report.

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OTHER DONOR ASSISTANCE FOR PRIVATE ENTERPRISE/INDUSTRY
(Since 1977)

A. To Development Finance Corp. of Ceylon (DFCC) (Private):

1. ADB loan of \$5,000,000, January 17, 1977 (288 SRI(SF))

To make loans to private enterprise in industrial, agro-related and small scale industries. For foreign exchange only. All funds are committed. Grant of \$75,000 for technical assistance to DFCC also at the same time.

2. ADB second loan of \$10,000,000, August 1, 1980 (451 SRI(SF))

To make loans or share investments for private industrial and tourism-related enterprises. Also for training abroad for DFCC staff (30 p.m.) and consulting services (\$200,000 of loan for these purposes). For foreign exchange only. \$6.0 million committed.

3. IFC equity in DFCC \$120,000, 1978 (494 CE)

4. IBRD loan of \$20,000,000 under negotiation

To be shared with NDB to finance large public and private enterprises. Loan agreement not yet signed.

B. To National Development Bank of Sri Lanka (NDB)(GSL owned)

5. IDA loan of \$16,000,000, October 24, 1979 (Credit 942-CE)

First Small and Medium Industries (SMI) loan. Used by NDB to refinance loans made by participating credit institutions. \$4 million to be used for training, TA, consulting services and related activities. \$12 million for refinancing.

6. IDA loan of \$20,000,000, February 9, 1982 (Credit 1182-CE)

Second SMI loan. \$8 million for TA and marketing services; \$28 million for relending. Industrial Development Board to establish SMI consultancy fund. For both foreign exchange and local costs.

7. ADB loan of \$10,000,000, July 17, 1981 (519 SRI (SF))

For loans by NDB to public and private sectors. \$200,000 for foreign exchange costs of consultants to prepare subsector studies.

IBRD loan described under 4 above also includes NDB.

C. To others

8. IFC credit of \$2,000,000, May 1, 78 (417-CE)

To Bank of Ceylon for relending to small and larger enterprises.

9. IFC credit of \$5,000,000, July 1981

To Bank of Ceylon for same purpose as 8 above.

10. IFC equity investment of \$288,460, 1980 (517-CE)

To Lanka Orient Leasing Co.

11. IFC equity/loan of \$3,000,000, December 1980

To Cyntex textile company

12. IFC loan of \$1,000,000, 1979

To Mike Chris Group of Companies

TOTAL ADB	\$25,000,000
IBRD (IDA & IFC)	77,408,000
	<hr/>
	\$102,408,000
	<hr/>