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FINAL REPORT

USAID/SRI LANKA PRIVATE SECTOR DEVELOPMENT PROGRAM: AN ASSESSMENT OF IMPACT AND OPTIONS

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This report represents the independent findings and recommendations of the evaluators. It does not necessarily represent the official views of the Agency for International Development.

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ABBREVIATIONS AND ACRONYMS

ADB	- Asian Development Bank
AgEnt	- Agro-Enterprises Project
A.I.D.	- Agency for International Development
ANR	- Agriculture and Natural Resources Office, USAID/Sri Lanka
BOO/BOT	- Build-Own-Operate and Build-Operate-Transfer
CAER-HIID	- Consulting Assistance on Economic Reform, Harvard Institute of International Development
CCC	- Ceylon Chamber of Commerce and Industry
CDS	- Centralized Depository System
CEO	- Chief Executive Officer
CFA	- Chartered Financial Analysts
CIPART	- Citizens Participation in Democracy and Development
CNCI	- Ceylon National Chamber of Industries
COPED	- Commercialization of Public Enterprises Division
CSE	- Colombo Stock Exchange
CWE	- Cooperative Wholesale Establishment
DARP	- Diversified Agriculture Research Program
DS&T	- Development Studies and Training
EDB	- Export Development Board
EDP	- Entrepreneur Development Program
EIA	- Environmental Impact Assessment (USG)
EIED	- Employment, Investment and Enterprise Development Div. (MASL)
FCCISL	- Federation of Chambers of Commerce and Industry of Sri Lanka
FMP	- Financial Markets Project
FY	- Fiscal Year
GDP	- Gross Domestic Product
GNP	- Gross National Product
GSL	- Government of the Democratic Socialist Republic of Sri Lanka
HDFC	- Housing Development Finance Corporation
HG	- Housing Guarantee (program)
IBRD	- International Bank for Reconstruction and Development
IC	- Industrialization Commission (MIST)
ICASL	- Institute of Chartered Accountants of Sri Lanka
IDB	- Industrial Development Board (MIST)
IESC-VE	- International Executive Service Corps, Volunteer Executive
IFC	- International Finance Corporation
IFI	- Intermediary Finance Institution
IMF	- International Monetary Fund
IQC	- Indefinite Quantity Contract
LOP	- Length of Project
LPG	- Loan Portfolio Guarantee Program
MARD	- Mahaweli Agriculture and Rural Development Project
MASL	- Mahaweli Authority of Sri Lanka

MBA	- Master of Business Administration (degree)
MEA	- Mahaweli Economic Agency
MECA	- Mahaweli Engineering and Construction Agency
MED	- Mahaweli Enterprise Development Project
MIST	- Ministry of Industry, Science and Technology
MOF	- Ministry of Finance
MVCC	- Mahaweli Venture Capital Company
NDB	- National Development Bank(Sri Lanka
NGO	- Non-Governmental Organization
NHDA	- National Housing Development Authority
NIC	- Newly Industrialized Country
OTC	- Over-the-Counter (share trading)
PACD	- Project Activity Completion Date
PAS	- Public Administration Service
PEP	- Private Enterprise Promotion Project
PID	- Project Identification Document (USAID)
PIM	- Post-Graduate Institute of Management
PIR	- Project Implementation Review (USAID)
PL 480	- Public Law 480 Program
PP	- Project Paper
PPI	- Promotion of Private Infrastructure Project
PRE	- Bureau for Private Enterprise (AID/W)
PRISM	-Program Performance Information System for Strategic Management
PRS	- Policy Reform Support Project
PSD	- Private Sector Development Office, USAID/Sri Lanka
PSPS	- Private Sector Policy Support Project
PSU	- Policy Support Unit (of PSPS Project)
PTA	- Post Trade Automation System
PVO	- Private Voluntary Organization
SEC	- Securities Exchange Commission
SET	- Sustainable Enterprise Technology Project
SIDI	- Secretariat of Infrastructure Development and Investment
SLBDC	- Sri Lanka Business Development Center
SOE	- State-Owned Enterprise
SOW	- Scope of Work
SSE	- small-scale enterprise
TA	- Technical assistance
TIPS	- Technology Initiative for the Private Sector (program)
UNDP	- United Nations Development Programme
UNIDO	- United Nations Industrial Development Organization
UNP	- United National Party
USAID/W	- United States Agency for International Development/Washington
USG	- Government of the United States of America
VAT	- Value Added Tax
WB	- World Bank

Chapter I. EXECUTIVE SUMMARY

This report is a descriptive analysis and assessment of the private sector development programs designed and implemented by the USAID/Sri Lanka Mission since 1983. The report describes the purposes and activities of these projects and programs; which have been successful and which have failed - and why. Finally, the report outlines emerging trends and constraints in regard to private sector and general economic development in Sri Lanka, along with suggested options for the Mission to consider regarding future programming.

The assessment was carried out over a period of slightly less than two months in August-October 1993, including five weeks in Sri Lanka from August 16 through September 19, studying documents and interviewing Mission personnel and Sri Lankan government and business leaders.

The eleven major private sector development projects and programs carried out by the Mission in collaboration with the Government of Sri Lanka (GSL) and the local business community and covered in this assessment were:

Private Enterprise Promotion (PEP) Project, 1983-1988
International Executive Service Corps' Volunteer Executive Program (IESC-VE), 1984-present
Private Sector Policy Support (PSPS) Project, 1988-1993, and Financial Markets Project (FMP), 1992-1996
Mahaweli Enterprise Development (MED) Project, 1989-1995
Technology Initiative for the Private Sector (TIPS) Project, 1991-1996
Agro-Enterprise (AgEnt) Project, 1992-1998
Promotion of Private Infrastructure (PPI) Project, 1992-1996
PL 480, Section 108 & Title III Programs, 1983-1994
Loan Portfolio Guarantee Program (LPG), 1988-1993
Housing Guarantee (HG) Program, 1991-1993.

Each of these projects/programs and their sub-components has been analyzed here from the standpoints of their long-range goals, short-term objectives, activities, performance, outputs, and impact on the private sector directly and on private sector development generally. In addition, briefer analyses have been attempted of several other programs operated by the Sri Lanka Mission that have been concerned in one way or another with private sector development, such as the Development Studies and Training (DS&T) Project, the Mahaweli Agriculture and Rural Development (MARD) Project, the PVO Co-Financing II Project, and the like, plus a brief look at three new projects being considered for implementation.

The performance and impact of USAID projects and programs have been assessed in the context of the impressive gains made by Sri Lanka's burgeoning private sector in particular and the economy in general since the dramatic 1977 shift in government policy. This shift has involved a transition from a centralized socialist system with state owned enterprises to a liberalized, market-driven economy with the private sector as the leading engine of growth.[i] Significant economic liberalization did not materialize, however, until 1988-89. From that time on, private sector development and leadership has really taken off.

Indicators suggest an economy that is becoming increasingly private sector-oriented as public sector investment declines, private sector capabilities develop, and market distortion mechanisms are gradually dismantled. However, there are still systemic problems and constraints that require reforms for the Government to provide a facilitative private sector operational environment. If major macroeconomic impediments and policy reforms are not made, private sector growth could be seriously hindered.

The **consensus of this assessment is that the USAID/Sri Lanka Mission has designed and implemented a sound and well-balanced program of private sector development** that is in consonance with the policies, priorities, and programs of the Government of Sri Lanka (GSL), and suited to the needs and maturation patterns of the country's business community.

The Mission has shown awareness of the need to alter goals, objectives, and programming approaches to coincide with changing political, economic, and social conditions in Sri Lanka. This vigilance and flexibility will be necessary to meet the new and more sophisticated challenges that will be facing Sri Lanka as the consequence of past successes as well as shortcomings, and because of possible changes in Agency programming priorities and funding levels.

USAID/Sri Lanka's programs have had a definite impact on private sector activity. While individual projects can demonstrate concrete quantifiable results and impact, the greatest value of the overall USAID effort in private sector development may have been qualitative in helping to create an atmosphere conducive to change and progress, as has been done in USAID's general support for economic and social policy reforms.

The effect of Mission contributions in strengthening both sectoral organizations and individual enterprise capabilities goes beyond quoting figures on employment creation, enterprise start-ups, income generation, and the like, as important as they are. Their most long-lasting importance may be that they have increased the general competitiveness, skills, and confidence of Sri Lanka's business community to address future opportunities and challenges, and in creating a general policy and attitudinal atmosphere that has enhanced possibilities for private sector development.

Most of the Mission programs have been designed and carried out in-house, although there has been effective use of some central and regional bureau Agency programs. The Mission has been the beneficiary of a fortuitous combination of experience and competence on the part of its professional staff that has resulted in thoughtful, well-organized programs and exemplary coordination among the various Mission units.

The Mission's private sector development efforts have also benefitted greatly from the presence of a cadre of Sri Lankan government and private sector leaders who have been receptive to ideas for change and energetic in implementing reform. The Mission has effectively used inputs from the Government and the private sector, and has worked closely with both groups during both design and implementation stages of program development.

The Mission's private sector program has demonstrated through its activities that it can work effectively and comfortably directly with private sector businesses and entrepreneurs, something which has not been characteristic of many donor programs that seem to experience difficulty in coming to terms with doing business with business.

The Mission's effectiveness with the private sector has been on two levels: (1) sectoral and institutional development; and (2) enterprise management efficiency and operational technologies.

For example, the Private Sector Policy Support Project (PSPS) has contributed substantially to the institutional capacities of the leading chambers of commerce for providing services to member industries and enterprises and, especially, in making possible a much improved, productive forum for open and consistent dialogue between the business community and the Government on economic, political and social issues of mutual and national interest.

The multi-faceted PSPS project also paid handsome dividends to general economic growth and progress through the successful launching of the Security Exchange Commission (SEC), strengthening of the Colombo Stock Exchange (CSE), creating Sri Lanka's first truly private venture capital company, and establishing a merchant bank.

Various Mission programs have supported the Government's economic liberalization efforts. Besides encouragement of legal and regulatory reform, USAID underwrote the extremely successful public awareness campaign carried out by the Government when it launched its major privatization program. When lack of transparency in subsequent privatization transactions threatened popular support, timely Mission assistance was crucial in helping to reform and improve the process, particularly in regard to valuation of the assets of public enterprises that were candidates for privatization. The assessment team has recommended a follow-up public awareness campaign to realign popular perceptions about the goals and nature of the Government's privatization program.

At the individual enterprise level, the Technology Initiative for the Private Sector Project (TIPS), which collaborated with the highly effective IESC Volunteer Executive Program, clearly showed to the business community the advantages of improved technology in order to increase international competitiveness of local companies in industrial fields with export potential, and assisted individual businesses to improve corporate planning and modernize operational capacities.

While the TIPS Project concentrated on the larger, more sophisticated trend setting companies in the Greater Colombo Metropolitan Area, the Mahaweli Enterprise Development Project (MED) was crucial to the establishment of several hundred small and medium-scale enterprises in agro-business for s[illegible]ers in rural areas, creating over 7,000 jobs and badly needed income generation. One of the most encouraging aspects of the MED project is the apparent sustainability of the small enterprise community created. Also, the PVO Co-Financing Project also supported numerous activities aimed at increasing employment and earning capacities and alleviating poverty among disadvantaged groups, particularly in rural areas and among women.

The increasing sophistication and effectiveness of the Sri Lanka Mission's program has come about because of a conscious effort to build upon previous experience (both positive and negative) to develop better and more pertinent projects in subsequent programming interventions.

For example, lessons learned from the overly ambitious initial private sector development efforts of the Private Enterprise Promotion (PEP) project, led to the better organized and more effective PSPS project. The PSPS follow-on Financial Markets Project (FMP) is, in its turn, addressing future sectoral development, including furthering the development of the CSE's investment systems, responding to current capital market legal/regulatory reform needs, establishing a secondary market for government debt, and possibly creating a second tier over-the-counter market.

The successful experience of the PSPS, TIPS, and MED projects were used in designing the more sophisticated approaches to emerging major private sector challenges and opportunities addressed by the export-oriented Agro-Enterprise (AgEnt) project and the massive infrastructure building activities of the Promotion of Private Infrastructure (PPI) project. Further, three potential projects still in the concept paper stage are aimed at increasing employment and income generation, and generally promoting wider participation in economic and social development programs.

In the view of the assessment team, the Mission has over the years put together the best private sector program development network of all the donor agencies represented in Sri Lanka. **As a result of this and the quality of its programs, the Mission is generally recognized as the leader and trail blazer among the donor community in private sector development.** Formal coordination with the activities of other donor activities has occurred at the annual Paris Round Table Meetings. Past and current coordination has mainly been informal because of the differing natures and directions of the various donors' efforts. Informal cooperation, particularly with the World Bank, has been sufficient for accomplishing mutual goals.

The assessment team came to the conclusion that **the major goals and objective of the Sri Lanka Mission's private sector development program have been appropriate and achieved.** Further, the team cited as "Lessons Learned" that **direct assistance to the private sector was most effective when it was demand-driven** and that **the "hands off" policy of both the Government and the Mission in regard to transaction-oriented program operations has paid off handsomely**, particularly in the TIPS and AgEnt projects.

Projects worked less well when not deliberately targeted or were prematurely ambitious or unfocused organizationally and programmatically, as in the case of the initial foray into the field with the PEP project. The assessment team came to the conclusion that long-term effectiveness of projects could be better assured if more attention were devoted to sustainability concerns after termination of USAID support.

The team also noted that there is generally a gap in donor assistance programs between what is provided through socio-economic programs aimed at micro-enterprises in poor or rural areas and what is given to larger, more complex companies mainly in the Colombo area. In between, there is a significant, emerging group of small and medium-sized enterprises in provincial business centers that have possibly the greatest potential for expansion, employment creation, and income generation over the next decade.

Current trends give every indication that the private sector will assume an ever larger role in the nation's economic development in terms of investment, revenue and income generation, employment, and industrial innovation. The Government, however, has still not clearly defined its changed role from being the strong controlling force and an active participant in the marketplace to primarily that of general planner, motivator, pump primer, and service agency in a free market economy where the private sector as the leading vehicle for growth.

Many constraints still exist in the policy and legal/regulatory environments that must be addressed if continued growth and progress is to be maintained. These constraints include continued public sector down-sizing; reduction of high interest rates and inflation; reform of labor and land tenure policies; solution of state bank inadequacies; liberalization of tax, tariff, and trade regimes; improvement of business management and skills training; and rationalization of policies, nation-wide programs, and practices that will improve the nation's attractiveness to foreign investors.

Within this political and economic context, the following five general programming suggestions are offered for the consideration of the USAID/Sri Lanka Mission in planning and designing the next generation of private sector development projects. Because of the extremely broad Scope of Work outlined for this assessment mission, these recommendations are necessarily general; and some would require more intensive investigation before actual design and implementation. The programming suggestions are:

1. **Human Resources Development.** Support programs promoting private short and long-term human resources development, particularly in management, finance, accounting, marketing, personnel administration, and legal affairs.

2. **Capital Generation.** Encourage capital generation through support to efforts aimed at improving financial sector institution operations and developing additional debt instruments.

3. **Macro-Economic Policy Reform.** Provide policy inputs, guidance, and training on major macroeconomic issues that are impediments to private sector development.

4. **Legal and Regulatory Reform.** Help ensure a "fair and level playing field" between public and private sectors through legal/regulatory reform and development.

5. **Enterprise Development.** Continue and expand efforts to encourage transaction-based marketing information and technology dissemination.

Chapter II. INTRODUCTION

A. Purpose and Objectives of the Assessment

This assessment of USAID/Sri Lanka's private sector development activities is being carried out under Contract No. PCE-0001-I-00-2050-00, Delivery Order No. 3, by Checchi and Company Consulting, Inc. and its IQC sub-contractor, Public Administration Service (PAS). The assessment involves provision of short-term technical assistance by a three-man team, including Mr. Clare E. Humphrey (Team Leader, under contract to Checchi), Mr. Anthony Costanzo (PAS), and national consultant Dr. Saman Kelegema (Checchi). The period of the assessment commenced on August 9, 1993 in Washington, D.C., involved approximately five weeks of on-site work in Sri Lanka (August 16-September 19) culminating in the submission of a final draft report, and an estimated ten working days in early October for the two American team members for final revisions based on USAID comments, with the final report scheduled for submission in 25 copies by October 14, 1993.

The purpose of this study is to provide USAID/Sri Lanka with (1) an assessment of the impact of the Mission's private sector development activities to date; (2) an analysis of the successes and failures of the Mission's private sector development activities; and (3) recommendations for the Mission's future private sector development activities.

A description of the complete project covering this assessment can be found in the Scope of Work attached to this report as Appendix A. In essence, the specific tasks of the assessment were carried out through implementation of the following tasks outlined in the Scope of Work: (1) preparatory work in Washington, D.C.; (2) assessing private sector activities' impact and relevance through review of appropriate documents, studies, and interviews during five weeks in-country; (3) analyzing the successes and failures of these activities; (4) assessing the relationships of the Mission's programs to those of other donor agencies and the Government of Sri Lanka; (5) identifying "Lessons Learned" and offering suggestions for options for future Mission programming; and (6) conducting briefings and preparation of draft and final reports.

Deliverables and reporting requirements have included submission of a draft workplan and a draft report outline by the end of day 14 of the contract, weekly briefings with appropriate Mission officers, final briefing and submission of preliminary, and final draft reports before departure from Sri Lanka at the end of five weeks in-country, and submission of the final assessment report within ten working days after receipt of Mission review and suggestions.

B. Scope, Methodology, and Approach of the Assessment

In fulfilling the six tasks and objectives listed in the preceding section, the team investigated the following 11 Mission-sponsored programs:

- Private Enterprise Promotion (PEP) Project
- International Executive Service Corps.' Volunteer Executive Program (IESC-VE)
- Private Sector Policy Support (PSPS) Project and the follow-on Financial Markets Project (FMP)
- Mahaweli Enterprise Development (MED) Project
- Technology Initiative for the Private Sector (TIPS) Project
- Agro-Enterprise (AgEnt) Project
- Promotion of Private Infrastructure (PPI) Project
- PL-480, Section 108 and Title III Programs
- Loan Portfolio Guarantee (LPG) Program
- Housing Guarantee (HG)

Also included in the assessment were private sector development components and activities of several other Mission-supported activities, such as Development Studies and Training (DST), Mahaweli Agriculture and Rural Development (MARD), PL-480-Title III, PVO Co-Financing II (especially the legal training and private sector related projects of The Asia Foundation), among others. In addition, the assessment team looked at the overall nature and evolution of Mission strategy and Agency-wide guidelines, priorities and strategies for private sector development. The relationship between Mission programs and those of other donor agencies, particularly as they relate to Host Country policies, priorities, and programs was also investigated.

Assessment techniques included a literature search in both Washington, D.C. and Colombo of relevant materials on Sri Lankan economic and political affairs, GSL documents, World Bank, Asian Development Bank, and UNDP/UNIDO studies documents, Mission and Agency-wide USAID documents, position papers, and studies on private sector development, materials and reports of Sri Lankan institutions and program assisted in the Mission's private sector development program and, most of all, project files, reports, and evaluations. A representative sampling of the documents collected and reviewed appears as Appendix C to this report.

The team interviewed relevant Agency personnel in Washington, D.C., along with World Bank and UNDP officials, and individuals persons involved in one capacity or another in private sector programming in Sri Lanka. During the five weeks in Sri Lanka, the assessment team interviewed more than 100 individuals in the Mission, contractors, Government of Sri Lanka (GSL) officials, project principals, representatives of the business community, and expatriate and local authorities in fields relevant to the team's investigations. The list of persons interviewed appears as Appendix B attached to this report. While most of the in-country work was conducted in Colombo, a short trip was taken to the southern coastal area.

The methodology employed in carrying out the assessment was fairly straight forward. The team relied heavily on project document review and inductive reasoning from interview meeting notes. For some of the summary analysis work in Chapter IV, particularly in terms of achievement of project goals and objectives, the Team Leader relied on a Program/Project Analysis Form developed in previous private sector development evaluations. Reference was also made to certain sections of the USAID Evaluation Manual and An Approach to Evaluating the Impact of A.I.D. Projects.

Weekly briefings on project progress were held with personnel of the Private Sector Development Office. Additionally, a roundtable briefing and discussion was held at the end of the fourth week in country for Mission staff and representatives of other donor agencies, the GSL, and the local NGO and business communities. A preliminary draft report was submitted to the Mission at the beginning of the fifth week in-country and revised and refined to reflect Mission views and comments at the end of the fifth week in time for a final briefing for Mission staff. After more thorough review by the Mission, the team made further revisions and refinements in Washington, D.C., and submitted a final report in 25 copies by October 15.

Because of the enormous amount of material and wide range of programs covered in this assessment, the team's approach of necessity was to deal mainly with highlights, and with the more important accomplishments and shortcomings of programs and their impacts. References to more detailed matters in individual projects were mainly restricted to instances that demonstrated relevance to those more general aspects and assessment goals. Therefore, the assessment centered on the value of what was attempted, what worked, what didn't, and why. Ultimately, the major thrust of the assessment was placed on suggesting programming options for the consideration of the Mission for future programming. Also, despite and inclination to recommend more specific programming recommendations, the assessment team remained within the boundaries of its mandate and stayed with merely suggesting options.

Chapter III. BACKGROUND

A. Overview of Relevant Political and Economic Developments in Sri Lanka

Sri Lanka has a well developed human resource base and a varied natural resource base to assist private sector-oriented economic development. The tools are present, and Sri Lanka has utilized some of these tools to make substantive changes in a short time period, despite non-economic impediments, learning many times from efforts that have been attempted since 1977. While real progress has been made while transforming the economy from a public sector-dominated orientation to the private sector, there are still many steps to be taken on the political front as well as the economic front to sustain past successful efforts and to forge ahead with more challenging reforms.

Private industry and service sector growth have been the main impetus behind Sri Lanka's strong growth. Growth has also been achieved by weaning the economy away from plantation (i.e. tea, rubber, coconut) dominance, although the economy is still sensitive to the performance of these sectors, which amount to approximately 20 percent of export earnings, and contribute 4.3 percent to GDP in 1992. Real Gross Domestic Product (GDP) rose by an average of 5 percent per year during the 1990-92 period compared with 2.7 percent growth in 1987-89. Also, the budget deficit - a major impediment to private sector growth and capital formation -has been reduced to 7.4 percent of GDP in 1992 from 11.2 percent in 1989.

Economic performance has been directly impacted by other influences since economic liberalization was initiated in 1977. The liberalization process began slowly mainly due to massive changes that had to be made in regard to: 1) reorienting public sector attitudes and methods; 2) re-establishing the private sector; and 3) facilitating public opinion in regards to wages, employment, and the availability of goods and services. While progress was being made in the early to mid-1980s, with GDP growing an average of 5.5 per year from 1978 to 1986, overall growth was impeded by political instability in the north and south of the country to 1989. A critical situation confronted the government with GDP growth averaging 2.5 percent from 1987 to 1989 and high inflation, reaching 21.5 in 1990. The budget deficit was also absorbing from 9.9 percent (1990) to 15.7 percent of GDP (1988), virtually starving the private sector and productive activity. The new government which took office in February 1989 initiated a series of reforms in line with a structural adjustment program that was to cover the period 1988-90. These major policy efforts included:

- depreciation of the rupee to Rs.40/dollar from Rs.34/dollar

- cut of government expenditure by 20 percent in the fourth quarter of 1989

- Increase of the base price of certain commodities (wheat, petroleum, fertilizer), in line with world market prices;

- Reduction of Central Bank holding of Treasury Bills; and interest rates were allowed to rise 18-20 percent to control money supply; and

- Implementation of a poverty program to protect the poor and vulnerable from the impact of reforms.

Main policy program reforms included:

- Reduction of budgetary subsidies and the phasing out of administered prices;

- Formation of a Tax Commission and implementation of some but not all recommendations;

- Implementing some, but not all, public sector rationalization reforms in accordance with Administrative Reforms Commission recommendations;

- Import regime modification, including the reduction of import tariffs to 50 percent and introduction of a 4 band tariff scheme as recommended by the Presidential Tariff Commission

- Restructuring of the plantation sector; and

- Initiation of a privatization program.

These measures removed some of the impediments to economic growth and identified the substantive changes that had to be pursued. While progress was being made, old impediments began to seriously impact economic performance, and new impediments surfaced, some as a result of only partial or slow implementation of recommended liberalization efforts. In addition, further stress was placed on the economy and the political structure by another outbreak of hostilities in May 1990 and the Gulf War. Even given these burdens, the economy proved more resilient than in the past with overall economic growth continuing, fueled by the growth of financial markets, tourism and overall private sector domestic and export production.

Indicators (as described in Chapter VI and the tables provided in Appendix D) show an economy that is becoming increasingly private sector-oriented as public sector investment declines, private sector capabilities are developed, and market distorting mechanisms are removed. However, major impediments still exist which act as a brake on private sector growth. The new government, put in place after a series of terrorist activities that claimed the lives of the President and a chief opposition leader, has continued along the economic liberalization path. Even with the assassinations and continued hostilities, the economy continues to grow with the private sector taking a larger share of economic activity despite impediments and little or no reduction in the size of the public sector. With elections slated for March 1995, it is doubtful that major or radical liberalization efforts will be announced within the next year.

However, given the Government's GDP growth target of 6 percent per year and a fiscal deficit below 7 percent of GDP in the medium-term, a certain amount of 'creeping liberalization' will have to take place to allow the private sector to fuel this growth. Also to facilitate private sector investment and growth, the government will have to further reduce the fiscal deficit (as suggested by the World Bank) to 6-6.5 percent of GDP, mainly through expenditure restraint; eliminating tax, trade, investment and legal/regulatory distortions and impediments; developing private sector human resource capabilities; and promoting foreign and domestic private sector investment and trade. Further discussion on private sector development trends, constraints, and opportunities is provided in Chapter V.

B. Overview of USAID/Sri Lanka's Private Sector Development Program Strategy Framework Since 1983: Context and Rationale

Private sector development has become the linchpin of the Sri Lanka Mission's program, with almost half of the budget spent for such programming in one form or another. It directly serves the three major strategic objectives for the Mission's program for supporting sustainable accelerated economic growth in consonance with the Sri Lankan Government's ambitious vision of promoting the country into the status of a Newly Industrialized Country within the next decade. Those three strategic objectives are:

(1) Increased competitiveness and growth of markets and enterprises;

(2) Improved practices for sustained productivity of natural resources; and

(3) Greater empowerment for a broad range of citizens to participate in development and democracy.

The Mission's private sector portfolio also figures prominently in four additional priority concerns identified for special attention: policy reform, the role of women in development, human resources development, and U.S. trade and development.

Over the past decade, the Mission has skillfully developed an increasingly sophisticated and integrated program of assistance to serve those objectives, a multi-faceted program that is attuned to Sri Lankan needs, aspirations, and capabilities. For example, the Mission's effort meshes well with the national strategy of agriculture-led industrialization. The program has been designed to strengthen the foundations of a sound, but flexible market-driven economy - human, financial, and structural. Projects aimed at the policy framework and underpinning regulatory environment have assisted local reform and liberalization efforts attempting to build the public sector-private sector partnership that is so essential for success in today's competitive globalized economy.

Mission projects and support have generally been sensitive to changing socio-economic and political conditions in the country and policies of the Government.

Implementation of this programming strategy has not come about easily or quickly. Prior to 1983, the Mission's preliminary efforts to support the government's post-1977 shift to a better balance between public and private sector contributions to and leadership of economic development consisted mainly of a few commendable, but scattered individual projects that appear to have been designed and implemented as targets of opportunities. With the launching of the five-pronged PEP project in 1983, the Mission started feeling its way in earnest in the private sector arena. While that perhaps overly ambitious project was not considered overly successful, valuable lessons were learned that bore fruit in the next major effort, the PSPS project in 1988, a much more mature effort that concentrated on strengthening private sector support organizations, such as chambers of commerce and trade associations. The PSPS project also provided timely and pertinent assistance to the Government's privatization program, assisted in the creation of the Securities Exchange Commission and in the development of the Colombo Stock Exchange, and assisted in the establishment of other new financial sector institutions. The progress made with PSPS is being followed up with the current Financial Markets Project (FMP).

With the MED project in 1989 and the TIPS project in 1991, Mission programs featured dealing more directly with individual private enterprises on a consistent transaction-oriented basis, although IESC Volunteer Executives had already been providing effective short-term expertise to a number of companies since 1984.

The emergence of the PPI and AgEnt projects signal two new and even more sophisticated approaches to private sector development. While the PPI could represent a new avenue for promoting private sector involvement by helping to mobilize private sector financial and technological resources for infrastructure development that were previously channelled through the public sector, it should be kept in mind that its thrust is still to build the basic physical infrastructure that will facilitate sounder economic development across the board in future years. Certainly, such infrastructure improvements will benefit both the domestic and export-oriented industrial and commercial sub-sectors which are the targets of many private sector development activities.

The Mission has been successful in tying programs and projects with practical needs of the private sector and government activities. These programs have matured just as Sri Lanka's private sector and overall economy have matured. Experience gained from this high level of activity should help to prepare the Mission for planning and implementing the next generation of private sector development programming in line with the increasing sophistication of the Sri Lankan economy.

While the attention usually focuses on the major programs just mentioned, a number of other collateral efforts are inextricably linked to them, contributing to the same overall private sector development objectives and strategic concerns. This shows the importance of private sector development to the Mission and the emphasis it has placed on Mission-wide coordination in this effort. Examples of these additional activities would be the PRE-sponsored Loan Portfolio Guarantee (LPG) program, certain elements of the large PL-480 Section 108 and Title III efforts, most of the products of the Development Studies and Training (DST) IQC, the Mahaweli Agriculture and Rural Development (MARD) Project, the many facets of the PVO Co-financing project, the Housing Guarantee (HG) Program, and others. Such complementary and mutually reinforcing activities will, hopefully, continue.

In addition to developing the next phases of on-going projects as MED and TIPS, new ventures are coming off the drawing board on a number of related fronts, such as the proposed Citizens Participation in Democracy and Development (CIPART) project, as well as two new project concepts: the Sustainable Enterprise Technology (SET) and Policy Reform Support (PRS) projects. These continuing efforts will of necessity involve not only the resources of the Private Sector Development Office, but the thinking and inputs of every office in the USAID/Sri Lanka Mission in order to achieve the ambitious goals of the Mission and the Government of Sri Lanka.

C. Major Activities of USAID/Sri Lanka's Private Sector Development Program

1. Private Enterprise Promotion (PEP) Project

a. Purpose and description of activities

The PEP project (Project No. 383-0082) was the first major effort undertaken by USAID/Sri Lanka specifically and directly aimed at promoting private sector activity. Previously, Mission assistance to the private sector had been intermittent and had been channelled through programming activities that were primarily aimed at other constituencies, such as agriculture or alleviation of poverty. The planned primary beneficiaries were not private sector entrepreneurs or firms. The PEP program, however, was specifically targeted at the private sector. Its stated purpose was to foster an improved investment climate and increased private sector investments in Sri Lanka, both domestic and foreign, using domestic resources where comparative advantage existed, with an emphasis on agro-industry. The program's goal was to increase employment incomes and locally produced goods and services needed to improve quality of life for the people of Sri Lanka, especially in rural areas.

The major components of the PEP program (with an authorization of $5,500,000) were (1) establishment of an Investment Services Center, quickly renamed and expanded into the Sri Lanka Business Development Center (SLBDC), which became the implementing agency for the other four components; (2) investor services and promotion; (3) economic and business policy formulation; (4) management development for larger firms; and (5) entrepreneur development for smaller enterprises. The original project called for $3 million in grants (later increased to $4.5 million) and $1 million in loans (obligated in 1983, with terms including 2% interest during the grace period of 10 years, and 3% for the remaining 30 years).

b. Actual project performance, outputs and impact

Despite a shift since 1977 from a socialist-oriented policy and operational environment toward liberalization and promoting the private sector as the primary engine of development, the Government was still ambivalent and defensively bureaucratic in its direct dealings with the business community. On its part, the private sector was wary of government statements and overtures, taking a "wait and see" attitude. Further, USAID was untried in assembling and carrying out a major private sector initiative. What was needed was a catalyst and vehicle to launch such a large and complex initiative. The SLBDC was the chosen instrument to act as the hub for the overall program.

Even though the overall results from the PEP program fell short of expectations (see impact matrix in Table 6, page 47), the program was not a bad first effort, when viewed in retrospect a decade later. Many valuable lessons were learned that bore fruit in subsequent Mission efforts. The PEP program was, however, overly ambitious, tried to operate on too many fronts at one time, and lacked proper programming focus.

Problems arose almost from the start in the working relationships among USAID's contractor (Coopers and Lybrand), the leadership of the client (SLBDC) and the Government (Ministry of Finance and Planning). The result was early departure of the contractor, and increased independence of SLBDC from Ministry direction. The Center, however, never completely fulfilled its role and potential. Impact of the SLBDC on private firms and overall sectoral development was minimal, and has remained so to the present.

The Investor Services Program did, however, exceed by a wide margin the projected target of 10 new investments, although goals for investment size and employment increases were never clearly stated. A mid-program evaluation indicated that 42 investor profiles were created, but 25 of them were general sub-sectoral profiles not tied to specific investment opportunities. Prefeasibility studies were conducted that played a measurable role in the expansion of non-traditional exports. Three individual investment missions brought results.

The contractor's local affiliate conducted about 20 management training programs successfully, but the demand was greater and broader than SLBDC human and financial resources could handle. Most of the courses were directed at larger firms, whereas the greatest need (and potential) was at the small enterprise level. The evaluator recommended that SLBDC concentrate on entrepreneur development programs (EDP) in the future. Minimum advisory assistance was provided to the training programs of other organizations; but even this effort overtaxed SLBDC resources. A number of advisory consultancies were carried out that directly benefitted individual firms, mainly larger ones in the Colombo area. A contract was signed to bring in the expertise of IESC consultants. By the end of the PEP program 10 such consultancies were completely successfully, leading to continuation of the IESC program under other programs to the present day.

The SLBDC never became the liaison channel between the government and the business community for several reasons. One was SLBDC's unfamiliarity with the role or with the policy issues involved. The Government, despite a shift in orientation of policy, was still reluctant to give up firm leadership prerogatives; and the private sector, particularly the leading chambers of commerce and industry, was still not prepared to risk all to engage the Government in full and frank debate on economic issues laced with political overtones. It should be noted, however, that the business community contributed substantially to the creation and design of SLBDC; but were involved only marginally during the life of the program.

In sum, three of the four divisions of SLBDC performed their tasks adequately, but with only marginal impact on actual business activity or private sector development in general; and their activities were not satisfactorily coordinated or focused. Only the policy division failed completely.

USAID learned a great deal about programming in private sector development from its creation and implementation of the PEP program. The Agency at this point was not clear as to its goals and objectives for such a program, as was evidenced by its ambivalence to the recommendations of two pre-SLBDC studies by major consulting firms in the United States. Organizationally, errors were made in project administration. For example, the contractor team did not arrive on scene until SLBDC had been in operation for almost a year, which substantially contributed to problems in liaison, lines of command, and program advisement. Further, the Mission tended to lean on its traditional relationship with the Ministry of Finance and Planning in the course of project oversight, rather than dealing more directly with the SLBDC.

Finally, the very capable USAID project officer designated to handle PEP was able to devote only part-time to this major and complex project; and other Mission officers of that early period were not experienced in private sector development programming. Experience gained from this project substantially helped in the design and implementation of future efforts as private sector development programming gradually assumed a major role in the Mission's overall strategy. Also, before writing off this project, it should be borne in mind that the SLBDC still exists and carries out a number of worthwhile activities, though on a reduced scale.

2. International Executive Service Corps. Volunteer Executive (IESC-VE) Program

a. Purpose and description of activities

The Mission initiated steady collaboration with the IESC in 1984 through a 10-consultancy agreement negotiated under the PEP program. Before that time, IESC consultants had been used on an intermittent, uncoordinated basis. The IESC Volunteer Executive (IESC-VE) program is still operating in Sri Lanka through a resident office under the TIPS project. Even though administration of the IESC-VE effort has been variously under the umbrellas of the PEP, PSPS, and TIPS projects, its function has remained essentially the same, i.e., bringing out retired executives to provide technical or organizational/managerial expertise to local private firms on a demand basis. The length of their stays are limited to three months, but a VE can return to work with the same company if requested.

To date, the IESC-VE program has carried out more than 150 assignments with private sector firms, mainly larger, more complex companies. Most have been in the Colombo greater metropolitan area; but there have been a number of consultancies performed for established businesses in most parts of the country. The companies are relatively large, however, since they must be able to put up sizeable funds to finance a goodly part of the project costs. USAID makes up the rest on a sliding scale, depending on the client's ability to share costs.

b. Actual project performance, outputs and impact

Surprisingly, this long-time player in the Mission's private sector development program has never been fully evaluated, at least locally, although it was included in the mid-1993 evaluation of the TIPS project. Evidently, the program's parent, the Bureau for Private Enterprise (PRE) in Washington has carried out several regional evaluations (including the program in Sri Lanka), but apparently has not shared the results with the local Mission.

Therefore, the assessment contained in the present report will be brief, and is based on interview notes and anecdotal evidence. Despite these limitations, it can be reported that evaluative comments on the IESC-VE program were uniformly positive. Particular praise for the program came from leaders of several of the larger companies in Colombo. In a few cases, these organizations were actually a cluster of enterprises (in some cases numbering over 30) under one corporate headquarters, such as Aitken Spence and Co., the Ceylinco Group, John Keells Holdings, and Richard Pieris and Co.,Ltd. Each of these corporations have used at least a half-dozen VEs, and one has engaged 15.

Companies like dealing with the VE consultancies because the people are extremely experienced managerially or technically, have encountered a wide range of situations in their respective fields (often in a variety of international settings), and can be hired to deal with a variety of specific, targeted problems; and the VEs are usually result-oriented. As an example, the Ceylinco Group brought in IESC-VE in such fields as finance, real estate, strategic planning, computerization, and insurance (twice). Richard Pieris and Co. have used six VEs, including especially successful work in corporate planning (using the same man several times) and for special production problems in their tire company. John Keells Holdings employed several IESC consultants in the various arms of its agro-business operations, as well as for corporate planning.

Successful projects have been carried out in a wide range of fields, including metal products (a brass foundry in particular), preventive maintenance, trouble-shooting for a stock broker, production engineering, paint manufacture, chemical engineering, etc. A review of the client list shows companies that are engaged in just about every industrial/manufacturing activity found in Sri Lanka. While programmed funds for the IESC-VE program are due to run out in early to mid-1994, it is hoped that alternate sources will be found to continue this exceptional effort for which there will be a need far into Sri Lanka's economic future.

3. Private Sector Policy Support (PSPS) Project

a. Purpose and description of activities

In July 1988, upon completion of the PEP program, USAID launched its next major effort in private sector development programming, the multi-faceted PSPS project (Project No. 383-0100), with an original authorization of $15 million.

The agreement date was July 29, 1988. The program featured four principal components:

(1) to strengthen the private sector's contribution to market-oriented economic policies by providing approximately $3 million through a Policy Support Unit (PSU) assisting representative private sector organizations (principally the leading chambers of commerce and trade associations) in building their capabilities for formulating, articulating, and advocating market-oriented policy positions important to the business community in dialogue with the Government;

(2) to assist the Government's effort for privatizing a significant number of state-owned enterprises (SOEs) through $9 million channelled principally through the Commercialization of Public Enterprise Division (COPED) of the Ministry of Finance (MOF);

(3) to provide approximately $2.5 million for improving the operation of the Colombo Stock Exchange (CSE) and the Securities Exchange Commission (SEC); and

(4) to provide close to $0.5 million to help establish a privately owned venture capital company.

In this report, parts (3) and (4) are considered jointly as a "Capital Markets" component. In 1992, the PSPS program was amended to authorize a new Financial Markets Project, with an authorization of $7 million and extending the PACD of the overall program from July 31, 1993 to July 31, 1996. The estimate for the host country contribution was approximately $20,000,000 in the original project.

Policy Support Unit

The PSU operated under a cooperative agreement with the University of Maryland. It was housed at the Ceylon Chamber of Commerce (CCC) where it helped establish the CCC's Economic Intelligence Unit and assisted the CCC in a number of activities, including seminars and training sessions. A principal activity of the PSU was to encourage and assist dialogue between the private sector and the government. The PSU worked closely with the Federation of Chambers of Commerce and Industry of Sri Lanka (FCCISL), although no funds were actually channelled through the FCCISL for this purpose. The Ceylon National Chamber of Industries (CNCI) has also received consistent support, principally for computerization.

Altogether, the PSU provided technical assistance (TA) and grants ranging from $10,000 to $200,000 to a broad spectrum of 23 chambers and similar private sector organizations to help strengthen their organizational capabilities and upgrade staff skills, improve services to members, compile and distribute information of interest and use to the business community, conduct training and workshops, promote trade events and missions, conduct research on important economic and business issues, encourage networking among chamber and trade associations, and promote public sector-private sector dialogue on a consistent and informed basis. A special effort was made to promote the creation and development of provincial chambers of commerce.

Privatization

Assistance was provided to COPED for general operational and staff support, long and short-term technical assistance on investor identification, investment profiles, valuation systems and services, company incorporation procedures, advice on treatment of claims, advice on legal aspects of the privatization process. Assistance also included help on post-privatization preparation of initial balance sheets for former SOEs, advertising for a public awareness campaign on privatization, general advice on important public issues, divestiture strategies, and training in a number of relevant fields.

This assistance to COPED was provided through a two-pronged approach: a contract with Ernst and Young (with a PACD of 31 December 1992) and direct support (PACD of 31 July 1993). When the original direct aid ended on 31 July 1993, a host country contract was signed between the Government and Ernst and Young's local affiliate in Colombo, with USAID funding, which extended the assistance five months through 31 December 1993.

Capital Markets

Two of the PSPS project objectives were directed at financial market development. The objectives were to: (1) improve the operation of the Colombo Stock Exchange (CSE) and broaden participation by small investors; and (2) demonstrate the viability of equity participation through a venture capital company. The principal activities under the first objective were to strengthen the CSE by establishing a Central Depository System (CDS) and improve overall management and operations; and establish a Securities Exchange Commission (SEC). Under the second objective, Sri Lanka's first private sector venture capital firm was established. The main indicators of the two sets of activities were increased ownership of publicly traded equity by an increasing number of private Sri Lankan individuals; establishment of the venture capital firm; and increased private sector access to investment funds. The project component ended in October 1992. A follow-up contract for the Financial Markets Project (FMP) began in January 1993 to solely concentrate on financial market development. The FMP is described in the following project sub-section.

b. Actual project performance, outputs and impact

Policy Support Unit

A mid-term evaluation of the project by Price Waterhouse posited that the PSU had "accomplished many of its objectives," despite administrative problems between Colombo and the University of Maryland. Further progress was made subsequent to that evaluation and the administrative hassles were overcome. Certainly, the institutional base and services of the principal chambers of commerce (CCC and FCCISL, in particular) have been strengthened through building of staff technical skills, improved research capabilities, greatly expanded physical and intellectual capacities for information compilation and dissemination, and generally better and wider services to members. One of the most encouraging features has been the emergence of increasingly healthy provincial chambers, although there is still a great deal to be done with regard to convincing members in provincial areas that those bodies can service their needs. The development of medium-term institutional development plans bodes well for the future, if some continued external financial and technical assistance is forthcoming during their building stage.

Recent assessments show that by the time the PSU was phased out (7/31/93), almost 50 policy oriented research studies had been carried by major chambers, along with more than 100 seminars, workshops, and training programs in chamber management and various types of enterprise management, accounting, marketing, production technology, policy issues, etc.

The FCCISL is contemplating (in mid-1993) launching an expanded training program comprised of a number of courses. The Federation has picked up sponsorship of the monthly Key Persons Forum, which would have ended with the closure of the PSU, and has hired two PSU staff members. The CCC is convinced that its Intelligence Unit is providing very worthwhile services to the business community, and is unstinting in its praise of the assistance provided by the PSU and USAID.

Further progress in improving the outputs of the chamber community will depend on overcoming long-standing turf and other rivalries among the leading bodies and decreasing the inherent tendencies of the major institutions to represent larger, established companies and their interests at the expense of smaller firms. It is these latter entities that have the greatest need for such assistance, and who perhaps have the greatest potential for growth and contribution to expanded private sector activity and eventual economic leadership.

Much of the assistance to chambers (both in Colombo and the provinces) has been for hardware related to informational services, less for building capabilities to directly service members in actual business operations. Major chambers are still dependent on a few strong leaders, with a need to develop new and younger leaders now at the middle level. Sustainability of important chamber programs remains questionable without continued donor support, although members are becoming more willing to contribute when activities show real benefits. The chambers and associations must be made aware of the necessity of developing the capacity for sustainability of their activities after eventual termination of donor assistance. This capacity is currently in doubt.

Perhaps the PSU's greatest contribution has been its role in increasing the frequency and substantive quality of the dialogue between the business community and the Government. All parties recognize that this improvement would not have come about had it not been for the work of the PSU and the USAID Mission. Basically conservative chambers have become much more confident and active in the last year in formulating and articulating in reasoned fashion issues of importance to the business community in particular and the nation's economy in general.

The Secretary of the Ministry of Finance has instituted a program of monthly meetings with well planned agendas supported by research papers for discussion of a variety of major and minor issues between the two sectors. More to the point, decisions and concrete actions have been taken on a number of issues and questions brought up at these meetings. Success at this level has led to meetings at lower levels on more detailed matters dealing with customs and taxes, among others. The value of the dialogue, along with the honest brokerage role of the USAID Mission in regard to these sessions and the sensitive issues involved has been recognized by all parties.

The success of this cooperation played a direct role in the move for the establishment of a special Advisory Council to the Industrialization Commission within MIST. Support for the Advisory Council is being considered by USAID as a possible third generation of assistance in this area. Launching the Council has, however, become mired down in the bureaucracy, and has dragged on interminably.

Privatization

The privatization component was generally successful in mobilizing and institutionalizing the government's capacity for designing and carrying out privatization activities. It is doubtful that COPED could have carried out its heavy responsibilities without the financial support for its operations and programs provided by the grant. USAID underwriting made possible the brilliantly conceived and implemented multi-media public awareness program on privatization carried out in 1988. The effect of this campaign was, however, blunted when lack of transparency in tender and other transaction connected systems occurred subsequently. This lack of transparency was partially overcome by procedural changes in the privatization process, but the adverse effect on public confidence in the privatization process lingers and must be addressed on a frank and consistent basis. Another public awareness campaign is probably in order to explain the nature and goals of the privatization effort and to bring the public back into the fold.

Despite some friction between the contractor and COPED (which led to the early departure of certain key contractor personnel), the technical assistance in improving investors profiles and, especially, valuations techniques have made a significant contribution to the government's professional effort.

Other types of assistance provided involved preparing investor profiles (47, including continual updating and feedback from clients), audits, pre-privatization feasibility studies, restructuring and privatization strategies for certain targeted SOEs, advice on legal issues (particularly with regard to conversion to limited liability companies), preparation of opening balance sheets of privatized entities, overseas marketing information, exposure to privatization programs in other countries and regions (including Eastern Europe), discussion of general policy and regulatory environments in Sri Lanka that affect privatization and private sector development, and even some crossover work with the capital markets component of PSPS. Gradually the emphasis of the contractor changed from performing tasks to institutionalizing the process by training and turning over these tasks to local staff and contracted personnel.

Over the life of the project to the present (mid-September 1993) a total of 30 SOEs have been privatized with majority ownership sold to the private sector. Another two SOEs have been privatized, although the Government still holds 51 percent of the shares. This makes for a total of 32, which is exactly half of the public enterprises on the Government's current list. Another three were privatized, but returned to the government fold when financing fell through in one form or another.

There is no question that the financial and technical assistance provided through the PSPS project significantly contributed to the achievements of the government's privatization program. The sustainability of the assistance is evidenced in the fact that since the actual termination of the actual assistance will terminate at the end of 1993, another 34 are in the pipeline. This exceeds the objectives of the project goals by a wide margin.

Capital Markets

The financial markets component's output performance targets were: 1) establish an operational SEC; 2) expand the role of the CSE in serving capital markets; 3) establish a venture capital company; and 4) provide assistance to the Banking Commission.

The targeted outputs have been achieved: the SEC is in full operation; a Post Trade Automation (PTA) system and Central Depository System (CDS)are in full operation at the CSE; the CSE has a modern operating regime allowing it to take on further sophisticated activities (described under the FMP, below); established Equity Investment Lanka, Ltd. as a self-sustaining private sector venture capital firm which developed 13 new investments (project target was 10); performed 6 analytical studies for the Banking Commission (project target was 5); and provided technical assistance to a new merchant bank which is now profitably competing in the private sector. The only shortcoming was the inability of the Equity Investment Lanka, Ltd. to divest 1 to 2 holdings to the public over the life of its USAID grant assistance.

The successful performance of the project interventions are also seen on the impact of company growth, improved performance of the CSE, and the increased availability of private sector capital. Major indirect impacts include: a dramatic increase of market capitalization to Rs. 75 billion in the first 6 months of 1993- already more than the Rs. 66 billion in 1992 and a growth of 80 percent since 1988; establishing the CSE as an increasingly important catalyst for privatization activities; establishing the Merchant Bank of Sri Lanka as a major privatization and capital raising institution; increasing the amount of CSE turnover by multipliers over 10 per year, indicating increased access of buy/sell orders to the general public; adding 60,000 new shareholders; developing the CSE to raise Rs. 4.5 million in new capital from 1990 to June 1993; adding 38 new issues from 1987 to June 1993; and using the CSE as another tool to attract and channel foreign investment into Sri Lanka- net foreign investment attracted via the stock exchange increased to Rs. 1.5 million in June 1993 from zero in 1989.

The establishment of the Equity Investment Lanka, Ltd. spurred the establishment of 5 other venture capital firms, adding an estimated Rs. 1 billion to the capital market. The profitable success of the Merchant Bank of Sri Lanka also served as a catalyst for the formation of other merchant banks.

While the project made great progress by helping establish the CSE as a regionally recognized fully operational Asian securities market and in developing other financial instruments and institutions, further development steps have been identified that are being undertaken under the FMP. The project has assisted in developing new private sector financing 'avenues' for the Sri Lankan private sector and privatization efforts. The rapid success of the CSE exemplifies the thirst for private sector finance and weaknesses in the banking sector.

USAID Administration of the PSPS Program

A final note on the PSPS program should be made on the increasing maturation in the Mission's experience and ability to design and implement private sector development programs. As mentioned earlier, administration of the PEP program was hampered to a certain extent at the beginning because the Mission was able to assign only one officer part- time to the project. During the course of the project, this was changed to a full-time assignment of a Private Enterprise Officer, an evolution which evidently definitely worked to the benefit of the project.

With the PSPS program, the Mission went a step further, establishing a Private Sector Development Office (PSD) with expanded staff resources devoted to this type of work. Strong direction and thoughtful guidance from Mission leadership, increasing experience with the special aspects of private sector development and privatization work, and a fortuitous meshing of skills from a remarkably able group of professionals all contributed to a capability well above the Agency norm as private sector development strategies became a major, perhaps the major thrust of the Sri Lanka Mission during the mid to late-eighties.

4. Financial Markets Project (FMP)

a. Purpose and description of activities

The Financial Markets Project (FMP) was initiated in January 1993, following the progress and completion of the PSPS Project's financial components. The FMP includes a 6 person team, plus short-term technical assistance. The project ending date is December 1995. The main components of the project are: (1) establish back-up systems for the CSE's CDS; (2) improve CSE and SEC information technology and system development; (3) place government debt issuing/trading instruments on the CSE; (4) develop corporate debt issuing/debt instruments; (5) establish a second tier market; (6) assist in developing accounting standards to international standards and establish an accounting standard enforcement mechanism; and (7) develop screen-based trading at the CSE.

b. Actual project performance, outputs and impact

The project is operational, but the entire team is not yet in place. While the objectives identified above may seem ambitious, the success of previous financial sector development efforts show that additional progress can be made and is needed to broaden access to capital. The project's components are also a natural progression from previous efforts, such as the purchase of enhanced computer equipment and a back-up system to improve the handling of increased volumes and the reliability of the CDS. It should be noted that the increased number of trades is currently pushing the current equipment to its limits. While the project aims at further developing the mechanisms to improve CSE performance, it also aims at developing the policy/legal/regulatory environment, improving CSE and SEC operations, further developing SEC and CSE human resource capabilities, and developing new financial instruments.

The main purpose of the following table (Table 1) is to indicate the areas in which assistance will be provided to show further developmental activities and to build a base for future financial sector option recommendations provided in Chapter VI. Also, it is very important to note that two components- the Emerging Financial Institutions and the Program Management & Policy Monitoring, Evaluation and Contingencies- have a very strong emphasis on conducting various studies. This TA should be utilized to build an information and decision-making base for future financial sector reforms in terms of: (1) financial sector legal/regulatory environment development; (2) institutional development; (3) human resource development; and (4) new financial instrument development.

Table 1: Financial Markets Project Breakdown

CATEGORY	COMPONENT/OBJECTIVE	TECHNICAL ASSISTANCE
LEGAL/REGULATORY ENVIRONMENT DEVELOPMENT	CSE/SEC Regulation and Self Regulation 1. Implement Regulatory Study Recommendations	- Assistance by Securities Market Regulation Specialist - 6 short-term specialized consultants for monitoring/training - 8 overseas training tours
	Financial Reporting/Accounting Standard Development 1. Setting Standards 2. Implementing Standards 3. Monitoring Compliance	- Short term accounting and audit specialists to assist in establishing and implementing standards - Establish compliance unit - Strengthen Institute of Chartered Consultants
	Development of Second-Tier Market 1. Establish regulations/policies to manage/operate market	- Short term specialists to research and define regulations and provide feasibility study and market guidelines
	Development of Market for Quoted Debt Securities 1. Establish regulations/policies to issue/trade government debt 2. Establish regulations/policies to issue/trade company debt	- Short-term specialists to develop feasibility and operational guidelines for implementing T-bill open market operations; develop bond grading system
	Program Management & Policy Monitoring, Evaluation and Contingencies 1. Provide 15 analytical studies and related dissemination activities in addition to responding to ad hoc requests by client groups	- Deploy 119 manmonths of 6 long term consultants and 124 man months of short term consultants in response to day-to-day contact with SEC, CSE, ICASL, over 24 client institutions, Central Bank, MOF, Monetary Board

CATEGORY	COMPONENT/OBJECTIVE	TECHNICAL ASSISTANCE
Human Resource Development	CSE/SEC Regulation and Self Regulation 1. Staff proficiency increased 2. Management proficiency increased	- Securities Market Regulation Specialist and Short term consultants will provide specified training - 8 overseas training tours at the U.S. SEC
	Financial Reporting/Accounting Standard Development 1. ICASL members trained in new procedures through seminars/workshops 2. Development of new tools for ICASL training	- ICASL educates students, members of the public about international accounting standards
	Post Trade Automation System 1. Train staff on new PTA and CDS systems	- Training of relevant SEC/CSE staff
	Development of Second-Tier Market 1. Identify related training for market operation 2. Perform market operation training	- Define and manage broker and broker/dealer training - Training of CSE/SEC counterparts and guidance to institutional players
	Development of Market for Quoted Debt Securities 1. Develop related training for securities issuance/trading 2. Perform training	- Overseas familiarization tours for Central Bank officials - Arrange dealer training - Provide 2 in-country seminars in bond trading with related short courses for portfolio investors
	Certification of Securities Market Professionals (Chartered Financial Analysts) 1. CFA established with at least 60 qualified individuals 2. Train at least 40 other privately funded students at various stages of obtaining certificates	- Long Term Training Specialist to promote and manage CFA program - Short term TA for a series of seminars to develop sustainability of training program over the long term
	Emerging Financial Institutions 1. Training on new institutions in new market segments (i.e., unit trusts, insurance companies, retirement funds, venture capital companies and merchant banks)	- 12 seminars with 30 participants each with shared costs

CATEGORY	COMPONENT/OBJECTIVE	TECHNICAL ASSISTANCE
NEW FINANCIAL INSTRUMENT DEVELOPMENT	Development of Second-Tier Market 1. Develop a entry vehicle for medium-size companies into the quoted securities market 2. Develop entry vehicle for venture capital companies to enter securities market via second-tier market	- Research and define initial entry regulations for both the main board and second tier market - Detail feasibility and operational guidelines - implement over-the-counter market and supervise electronic trading system - define and manage broker and broker/dealer training; CSE/SEC counterpart training; and institutional player guidance - Other specialized tasks by host country professionals in accounting, valuation, and legal assistance
	Development of a Market for Quoted Debt Securities 1. Establish a secondary market in government securities with participation by the general public and institutions 2. Quote several corporate debentures in the market	- Provide short term TA to develop feasibility and operational guidelines for the implementation of T-Bill open market operations - Actuate bond grading system with common software module - Implement system and arrange dealer training - Conduct 2 in-country seminars in bond trading with related short courses for portfolio investors - Conduct overseas familiarization tours for Central Bank Officials
	Emerging Financial Institutions 1. Work with new institutions in fresh market segments such as unit trusts, insurance companies, retirement fund, venture capital companies and merchant banks	- Short term TA in various areas, dependent upon proposals submitted by counterpart institutions
	Program Management & Policy Monitoring, Evaluation & Contingencies 1. Provide analytical studies and related dissemination activities in addition to responding to ad hoc requests by client groups	- Long and short term TA to respond to SEC, CSE, ICASL, over 24 client institutions and Central Bank, MOF and Monetary Board

5. Mahaweli Enterprise Development (MED) Program

a. Purpose and description of activities

The purpose of the Mahaweli Enterprise Development (MED) Project (Project No. 383-0090) has been to accelerate creation of permanent employment among settlers in small, medium, and large private enterprise establishments by improving the policy environment for private enterprise in the Mahaweli systems through a series of targeted interventions. Secondarily, the purpose has been to strengthen GSL commitment to market-oriented approaches in the enormous and complex Mahaweli development program in rural and semi-rural areas covered by the program. The long-range goal has been to raise the median household income of Mahaweli settlers to Sri Lanka's national level.

The MED program has included a wide range of sub-project activities, carried out in coordination with the Mahaweli Authority's (MASL) Employment, Investment and Enterprise Development Division (EIED). Expatriate and Sri Lankan technical assistance provided (both long and short-term) under the contract with International Science and Technology Institute (ISTI) and its local contractors, especially Ernst and Young Consultants (Sri Lanka), has covered such fields as enterprise management and development, marketing, law, finance, agronomy, small scale engineering, food processing, public relations, information services, socio-economic survey techniques, etc.

Second, there has been considerable work in entrepreneur development training, emphasizing basic business skills simple accounting, as well as financing. Ad hoc technical training has been provided to entrepreneurs in existing enterprises. There have also been travel and promotional tours, combined with seminars and information dissemination.

The EIED and sub-project activities and groups have been provided with equipment, including computers, office equipment, and vehicles. Grants have been made to selected associations representing business activities in the MASL areas, such as the Mahaweli Chamber of Commerce, crop-specific growers' associations, group lending/savings associations and the like. Credit and savings mechanisms have been encouraged, along with a general interest in promoting capital development and investment in the Mahaweli system.

MED also established a Fund for Special Projects to sponsor various activities, such as outgrowers' demonstrations, test cropping prototype product development, field-based advisory services, etc. Considerable attention has been devoted to obtaining land plots with transferable lease arrangements for small entrepreneurs, done in cooperation with the GSL. An effort has also been made to privatize some of the holdings of the MASL.

MED was authorized a budget of $15 million, with an anticipated host country contribution of $9 million. The agreement date was June 30, 1989, and the PACD is March 31, 1995.

b. Actual project performance, outputs and impact

Through the second quarter of FY 1993, approximately 39.3% of the program budget and 61% of the obligated funds have been spent. Statistically, the performance of the MED program has been generally satisfactory. The original target of creating 1,250 jobs in small enterprises has already been effectively met, as well as more than half of the target of 9,200 jobs in medium and large enterprise activity. Projected approved investment in medium and large enterprises of $16 million has been only half met. However, only two settlers have been allocated land title or long-term leases, or about 6% of the target. Land issues will be discussed below. Implementation of pre-investment assistance programs has been about on schedule. The targeted number of settlers trained in basic skills and management practices (950) has already exceeded the LOP target (750), but efforts have been made to improve the quality of the EDP training effort.

To date, 54 credit/savings associations have been formed and are offering services. Fifteen small business centers have been established to administer to small scale enterprise needs. Project reports state that 5,129 consultancies (many of them administrative services) were provided to small entrepreneurs through the field business centers, an extraordinary figure in view of the fact that the original target was only 900. MED believes that the assistance to entrepreneurs in supplying marketing information and, especially, in helping them apply for financial assistance has been especially productive.

All in all, the credit program has been among the most successful in Sri Lanka. Financial institutions have been quite willing to make very small loans (in the $100 range) where the repayment rate has been very good, but have shown reticence at higher levels ($500-2,000). USAID is working on solutions to this, with the emphasis on helping existing enterprises, although help is also given to start-ups.

Small scale enterprises have been developed across the board in a variety of business fields, including gherkin production and processing, small industrial manufacturing, eyelash production (including exporting), tourism and other service sectors, some work in minerals, housing, etc.; but because the activities taken place in rural areas, the emphasis has been on domestically-oriented agro-business.

Entrepreneurial activity appears to be greatest among second and third generation settlers. There is some evidence that when entrepreneurs make money through SSE in Mahaweli, there is a tendency to pull the profits out and invest them elsewhere. There has been considerable activity in ready-made garments in the Mahaweli area, but this has mainly been in using empty buildings, and MED has not been involved. Employment generation in ready-made garments has been significant.

The program's policy objectives in promoting a more open, flexible framework for private sector development have been relatively well served, and there is the possibility of replicability in other rural areas. The GSL generally supports the MED goals at policy levels, except on the question of land tenure; but mid and lower-level authorities in rural areas are frequently less cooperative.

Senior level counterparts have supported the agenda.

The major obstacle to achievement of the program's goals and objectives shortcoming of the program has been lack of progress on releasing land to the private sector under lease or title. Until solved, this problem will seriously impede investment and business development in the Mahaweli regions, particularly among larger companies. The lack of a reliable, year-round supply of irrigation water is another obstacle; and the general absence of adequate infrastructure (communications, electricity, and roads) also hamper program progress. A mid-term evaluation of MED, in addition to citing official reticence to act on the land tenure question, noted that government approvals of several key measures to streamline procedures for transactions between the MASL and the private sector are still being held up at the cabinet level.

However, there has been adequate progress by EIED in steering its programs and implementation procedures into a more market-oriented mode and in dispensing to potential investors clearer guidelines on policies, regulations and procedures. A consultant has been hired to further improve the information clearing house capabilities established in EIED through MED interventions and equipment. The evaluation noted that much of the extensive program was misdirected toward vocational training and no longer responsive to project goals. The mid-term evaluation came to the general conclusion that "The MED design remains essentially valid and its four components are appropriate for MED assistance to EIED/MASL." The evaluation noted that progress was much greater in the last six months of 1992 than in previous periods in the project's life. Most commentators interviewed by the present assessment team have stated the opinion that the small-scale enterprises represent the most sustainable portion of the MED program once USAID funding is terminated.

In a multi-faceted program of the size and complexity that has been directed at the Mahaweli system, it is inevitable that some overlap and duplication will occur. There have been turf problems between EIED and Mahaweli Economic Agency (MEA).

There has also been some of evidence of this between USAID's MED and Mahaweli Agriculture and Rural Development (MARD) projects in the private sector development arena. However, in the view of this assessment team, the degree of duplication has been within acceptable limits. The MARD ventures into enterprise development have, in the main, centered around commercial farming ventures rather than enterprises as such and they are not primarily in agro-business, whereas MED has concentrated more on small scale activities by individual settlers.

Both MARD and MED, however, have made financial contributions to creating cold chain facilities (MED's contribution was $300,000 on a 50-50 sharing basis with the investor). MASL is genuinely excited about these efforts because of the infusion of new technology and the beneficial effects downstream. For the record, it should be mentioned that TIPS and AGENT are not operating in the Mahaweli arena.

Of enormous importance to achieving the general goals of the MED program is the potential for commercialization and/or privatization of MASL facilities and operations. While commercialization of some of these facilities and operations could conceivably come under the scope of MED in terms of implementation, such as the Mahaweli Engineering and Construction Agency (MECA), Mahaweli Venture Capital Co. (MVCC), plus several livestock operations that have been mentioned, the majority should probably be handled under other programs. Even in these latter cases, however, MED could provide analysis and operational support in many instances.

For example, there is potential under PL-480 Title III Policy Reforms for the overall restructuring of the MASL; for restructuring/privatization of the Ceylon Fisheries Corp.; for continuation and expansion of the land surveying/titling effort; and for privatization of fertilizer distribution, wheat and flour importation and marketing; and restructuring of the Agrarian Services Department, among others. These and other measures of differing priorities currently being considered are, however, beyond the purview of this assessment other than mentioning them. The great number of instances of privatization of MA facilities has been in the use of empty building for business purposes. Ready-made garments is a prominent example of this use. It should be kept clearly in mind, however, that the two programs are separate, even though they are potentially mutually supportive.

6. Technology Initiative for the Private Sector (TIPS) Project

a. Purpose and description of activities

The Technology Initiative for the Private Sector (TIPS) project is an $18.7 million, 5-year project beginning in March 1991 and ending in December 1996. The purpose of the project is to increase the international competitiveness of Sri Lankan private sector companies by improving their performance in choosing, acquiring, and mastering technologies. The project is led by an expatriate Chief Executive Officer from the International Executive Service Corps (IESC).

The main component of the project is a $6.3 million grant mechanism that shares costs with private sector companies for technology search and exposure, buyer search, test marketing, trade show attendance, training and equipment sourcing. Company funds were originally matched on a 50-50 basis for these technology-specific task efforts; currently, the private companies provide 2/3 of the funding and TIPS provides 1/3 grant funding. The project is totally demand-driven by industry needs. Specific sectors are not concentrated on for development.

The project provides counseling services, assists companies throughout the application process and provides follow-up to grant activities. The project also coordinates IESC's Volunteer

Executive (IESC-VE) Program and includes modest funds for policy research to be implemented by the GSL.

b. Actual project performance, outputs and impact

The project is successful in reaching out to the Sri Lankan business community with practical transaction and business development activities. About $4 million (63 percent of the grant funding) has been spent in the first 2 years of this 5-year project (63 percent of total grant funding). This flow of funds provides two indications: (1) the demand for small doses of capital (venture capital or short term financing) to enter into new business areas; and (2) the interest of the private sector in improving their competitiveness. As of this time, the project has increased the value of annual sales of TIPS grant recipient companies by 20 percent (end-of-project target is only 10 percent); value-added per employee of grant recipient companies increased 5 percent (target is 3 percent); increased expenditure of TIPS client companies on technology change, promotion, training, and market research by 75 percent (the target is 100 percent); formed 6 formal linkages with U.S. and other foreign companies (the target is 60 percent); and increased U.S. imports to TIPS-assisted companies by more than three-fold.

Table 2: TIPS Output and Performance Targets

Output/ Performance Targets	Total to Date	Project Target
Approved technology grants	205	303
Industrial information requests processed	255	250
Company diagnostics performed	4	15
Technology promotion seminars held	8	25
Trade show participation arranged (# of participants)	150	50
Company orientation tour organized	92	100
VE programs undertaken	21	60

The above numbers show that the project has made great progress in its first two years of operation. An interim evaluation of the project was performed in August 1993 and made several recommendations regarding project's future impact. The main recommendations are: (1) reposition TIPS around a not-for-profit or a for-profit organization; and (2) source additional USAID funds to support TIPS in its effort to meet accelerated demand. The evaluation indicates that to implement the recommendations, the Mission should organize a project redesign (on/about 1994) while seeking enhanced project funding. These recommendations are further discussed in Chapter VI.

7. Agro-Enterprise (AgEnt) Project

a. Purpose and description of activities

The Agro-Enterprise (AgEnt) project is a 5-year, $14 million effort which began in late 1992. Its purpose is to assist the development, diversification, and expansion of private agro-based enterprises for domestic and export markets. The project is a result of experience with past USAID/Sri Lanka/Agricultural and Natural Resource Office projects and building on the transaction-orientation of the TIPS project. The project's counterpart agencies are the Ministry of Agriculture Development and Research and the National Planning Department. However, the project is 95 percent private sector-oriented and is not housed or directly tied to any government institution. The project operates nation-wide, except in the Mahaweli regions.

The project team, consisting of four expatriate managers with local counterparts, assists private agro-based enterprises in business and marketing strategic planning; product development and test marketing; access to improved product formulas and processing technologies; identification of new markets and buyers; facilitation of sales and participation in trade Missions and trade fairs; promotion material production; joint venture identification and development; new production technology introduction; post harvest innovation; and training.

The main component of the project is to provide development grants (Shared Investment Awards) to businesses and commercial farmers with the potential to become viable enterprises through the introduction of new technology, developing new markets or entering new markets. AgEnt will provide up to 50 percent of the cost of a company development effort in these areas with the company providing the remainder of the funds. The project is to assist in agricultural diversification, and export and domestic market development. The project also has a policy component and provides short-term consultants in specialty agro-enterprise areas. A small portion of the project (about 5 percent) is aimed at helping the public sector develop an agro-based enterprise curriculum, laboratory development, and training.

b. Actual project performance, outputs and impact

The AgEnt project is a unique approach to agro-enterprise development since it is mainly client-driven. After a fast start-up in early 1993, in the first 6 months, the project has undertaken 208 consultations, 81 formal submissions of grant proposals and 23 grant acceptances (some of which are currently undergoing negotiation). While counseling and grant assistance is provided from the initial steps of production to final sale, the main indicators for the project are: number of agro-enterprises established or expanded with project assistance; jobs created as a result of project (farm and off farm); private sector investments; new product or processing technologies adopted; and new products marketed.

It is too early to determine the outputs and success achieved in meeting these targets. However, with the number of counseling sessions, grant awards and result beginning to be realized, it appears that the project is progressing. The project is, at the least, increasing awareness of the need for business planning and other business management and operational techniques in the agro-business enterprises and the GSL.

While there is a demand for AgEnt's counseling services, there appears to be a similar question confronting AgEnt that also confronts TIPS. Is the project sustainable once the project ends? What are its sunset provisions? While the project will increase the performance and sophistication of the agro-business sector in the short term and on a case-by-case basis, what are the possibilities for the medium- and long-term? While one of the goals is to train counterparts in performing the tasks of the expatriate team members, in what institutional structure will they work? And, how will the resulting institution be funded? Some options are discussed in Chapter VI.

8. Promotion of Private Infrastructure (PPI) Project

a. Purpose and description of activities

The Promotion of Private Infrastructure (PPI) project was initiated in January 1993 and is expected to end in September 1996. The purpose of this $7 million project is to assist the Government to develop a market for private financing and management of economic infrastructure by mainly utilizing Build-Own-Operate (BOO) and Build-Operate-Transfer (BOT) financing and management approaches. A secondary purpose is to encourage and support U.S. trade and investment to assist Sri Lanka's economic infrastructure development, while enhancing American investment and employment both at home and abroad.

The project is operated by a two-person expatriate team, with local support provided by a local consulting firm and the Secretariat for Infrastructure Development and Investment (SIDI), Ministry of Planning and Implementation. Training is provided on the BOO/BOT concepts and application. Short-term consultancies are provided for specific project feasibility studies and transaction development. Also, the project was amended to include funds for policy reform purposes.

b. Actual project performance, outputs and impact

This transaction-oriented project started at a fast pace with the arrival of the Chief of Party and the Resident Investment Specialist. Various training efforts have been undertaken as of this time.

A detailed booklet describing the BOO/BOT concept, project proposal submission requirements (the project does receive unsolicited proposals) and the tender process is being disseminated. In the first six months, the project office has received ten solid project proposals with two of them in the final stages of completion and endorsed by SIDI. Project indicators include: achieving 75 percent of new infrastructure projects in selected sectors undertaken on a BOO/BOT basis; and investment by U.S. firms in Sri Lankan infrastructure projects of at least $150 million. Also as output targets, the project will have twelve proposals endorsed by SIDI (two of which are already endorsed) and three signed project agreements.

The project's indirect impacts are to reduce Government expenditure on economic infrastructure, provide private sector awareness and participation in BOO/BOT projects, attract foreign investment and technology, create public awareness and participation in private sector infrastructure development, and provide positive examples to public sector entities in the areas of energy, telecommunications, transportation, water distribution/wastewater systems and waste disposal. In the course of the project, the local cooperating consulting firm will pick up considerable experience in a variety of managerial and technical fields, experience and skills which will accrue eventually to SIDI. This human resource development aspect which should not be overlooked. Future issues and opportunities for the medium- and long-term are provided in Chapter VI.

9. PL 480 - Section 108 Program

a. Purpose and description of activities

The purpose of the PL 480-Section 108 program is to provide local currency through private intermediaries to finance private productive enterprises at market rates. The Mission received a total of Rs. 136 million in monetized Pl 480 resources, which was transferred to five Intermediary Finance Institutions (IFIs). The allocation of these funds is shown in the following table.

Table 3: Section 108 Allocations
(Rs. million)

Bank	Amount	Sector Concentration
Mercantile Credit	27	Tea Industry
MacKinnon & Keels	10	Livestock and Tea
Central Finance	30	Trucks/Ag. Eq.- Mahaweli
Sampath Bank	30	Agro-Industry-Mahaweli
Seylan Bank	15	Micro-Enterprises
Total Disbursed	102	
Total Undisbursed	34	

USAID/Sri Lanka mainly has a monitoring and administration role given the disbursement of a majority of the funds and a decision by the Mission to curtail any future Section 108 activities.

b. Actual project performance, outputs and impact

As summarized in a PSD report, the five IFIs have had mixed results - three IFIs have performed poorly in implementing their programs in terms of utilization and two IFIs have developed small business lending programs. A review of Seylan Bank's small business lending program by PSD revealed that the bank most likely would not have started such a program if the funds were not available. The review also stated that the bank used the funds more for initiating new entrants into the formal credit markets than with the aim of making profits. The loans, disbursed mainly outside Colombo, reportedly had high transaction costs. The funds also assisted MacKinnon & Keels to develop livestock (pig breeding) efforts. MacKinnon & Keels feels that they maximized their activities in this area and did not request additional funds.

While overall the program made financing available in the credit market, its low utilization levels indicate the ineffectiveness of the program. The program also has an impact of distorting credit markets with subsidized credit. However, even with subsidized rates, the formal credit market is still out of reach to many Sri Lankan firms, especially entrepreneurs in micro and small-scale enterprises. It shows that the availability of credit is not the only issue. It is also a question of how to access, promote and manage funds from a small business, as well as from a financial institution perspective.

The Mission will continue its monitoring role. This will allow more than payback monitoring, such as working with IFIs to further utilize funds. The utilization of funds should be further reviewed to determine reason(s) for non-utilization or poor performance which can shed some light on the private sector accessing and participating in the formal credit markets.

10. Small Business Loan Portfolio Guarantee (LPG) Program

a. Purpose and description of activities

The purpose of the Small Business Loan Portfolio Guarantee (LPG) program is to guarantee commercial bank loan funds to small businesses. USAID provides a 50 percent guarantee, backed by the full faith and credit and the U.S. government. The guarantee is a local currency guarantee covering principal only. The maximum loan size to a qualifying small business is the local currency equivalent of $150,000. The participating financial institution is responsible for making all credit decisions and loan management. Training is also offered for bank lending officers and business owners. The program (under the former PRE Bureau) is currently being phased-out by A.I.D./Washington. A wind-down plan for USAID/Sri Lanka's program has been submitted.

Six guarantee facilities are operating in Sri Lanka. There are five bank facilities and a sixth facility for a privatization guarantee. There was a seventh facility with Seylan Bank to support the purchase of IBM computers. This last facility was not utilized because of high interest rates.

b. Actual project performance, outputs and impact

The program has had some impact by guaranteeing 466 loans with an average loan amount of $6,134. The program has also supported 32 leases averaging $5,646 and facilitated one privatization by providing a 40 percent guarantee for a $6 million debenture. Three of the 5 financial institutions have made use of the guarantee to varying degrees.

Table 4: Financial Institution Activity/PRE Recommended Phase Out Activity

Financial Institution	Activity	Planned Phase-Out
Sampath Bank	As of 3/31/92, there were 205 outstanding loans with an average loan size of $6,887. Cumulative utilization is 58 percent of a $2.5 million guarantee limit.	Renewed for a second term, expiring on 9/30/96 with a guarantee limit of $1 million.
Hatton National Bank	As of 9/30/92, there were 261 outstanding loans with an average loan size of $5,381. Cumulative utilization is 56 percent of a $3 million guarantee limit.	Renewed for a second term, expiring on 9/30/96 with a guarantee limit of $1 million.
The Finance Company	As of 9/30/92, there were 32 outstanding leases with an average lease size of $5,646. Cumulative utilization is 45 percent of a $.5 million guarantee limit.	Renewed for a second term, expiring on 9/30/96 with a limit of $.25 million.
Citibank	Have not utilized guarantee. Had a limit of $.5 million	Guarantee expires on 9/30/96 without renewal.
Seylan Bank	No information is available on activity. Cumulative utilization is 40 percent of a $1.5 million guarantee limit.	Guarantee expires on 9/30/96 without renewal.
Kelani Tyre Privatization	A bond guarantee of 40 percent for the privatization of this company. Cumulative utilization of 100 percent of a $2 million guarantee.	Expires in 1999 without renewal.

In April 1991, PSD sponsored two one-week courses on Bank/Entrepreneur training with A.I.D./Washington. The seminars were reportedly very well received. Another week of banker training has been proposed for early 1994.

As with the PL 480-108 program, this program should be reviewed to indicate why the financial institutions have not fully utilized these guarantees. A review will not only provide information about already known credit impediments (such as interest rates are too high) but may also shed light on financial institutions' credit management/utilization processes, small business needs, training needs identification and other insights into capital access. This is further addressed in Chapter VI.

11. Housing Guarantee (HG) Program

a. Purpose and description of activities

The Housing Guarantee (HG) program as presently constituted has set a goal to increase availability and affordability of housing, especially for the poor, through the integration of housing finance into the mainstream market-oriented finance system. To achieve this goal, the following objectives must be realized:

- Rationalize the public sector's role: lending should be market-oriented and grants should be more closely targeted and prudently allocated. The National Housing Development Authority (NHDA) should expand its role in policy and programs; and the public sector should improve supervision of the shelter delivery system.

- Housing should be a sustainable investment: Housing's role in the economy should be shifted from a consumption item to one of investment, where larger, sustainable programs can be put in place to better meet the country's housing requirements. To accomplish this, the role and participation of the private sector must be enhanced.

- Increase affordability: housing must be made more affordable, especially for the poor,through more flexible lending terms and the use of innovative lending instruments.

The original HG program was launched in 1979 with an authorization of $10 million, which gradually built up to $100 million. The program, which was designed to supply basic construction at low costs started out as a 100% grant program, but gradually shifted to a low interest loan program (2.5 percent over 10-15 years). By 1986, the interest had gone up to 9 percent; and the program was still 90 percent supported by USAID. In 1986 a system of informal credit was introduced with a PVO (Thrift and Cooperative Society) as a partner with the GSL. This system worked until 1988, with a recovery rate of 98 percent, a vast improvement over the 30 percent of earlier efforts. Election campaign promises in 1988 about the loans being turned to grants brought the recovery rate down to nothing (zero percent) almost immediately, which prompted USAID to withdraw,not returning until 1990.

HG-004 has been authorized at $25 million, with the current tranche set for the rupee equivalent of $10 million. Funding is divided between housing loans ($6 million) and housing grants ($4 million). The lending portion of the program is designed as a refinance facility through a Central Bank "window" to sub-apex lenders, who may either lend directly to below-median income families or wholesale to "primary" lenders (such as NGOs). Beginning in October 1992, three private banks, four government banks, one government building society, and the NHDA signed participation agreements with the GSL. The current PACD is September 30, 1993, but an extension/renewal is contemplated.

b. Actual performance, outputs and impact

Through July 1993, a total of $1.5 million in 9,469 loans were given from the present tranche (for an average of $160 per loan). Total grants have been approximately $3.2 million, for a total of just under $4.8 million. However, the program never really recovered from the ramifications of campaign statements about loans being grants. Additionally, the refinancing scheme has not worked because of the availability of cheaper money. Cooperation with ADB is being discussed in order to provide a constructive policy framework, special mortgages, and TA, automation, and training. Several studies have been underwritten, including a major investigation of the land tenure problem. Other studies have been directed at underwriting, collections, servicing, funds utilization, and secondary markets.

Several problems have been identified. The HG program aims at allowing private sector participation by using market-determined interest rates to offset the higher rates incurred by constant government intervention. Bankers are still not convinced that poor people are a good risk, particularly over the long-term and with uncertain interest rates. The lack of long-term financing reduces affordability levels. Finally, there is the severe problem of land tenure. Most title to property is clouded and formal lenders will not make mortgage loans unless land title is perfected.

The special dispensation given to the Housing Development Finance Corporation (HDFC) by the Monetary Board has enabled it to proceed more efficiently in designing long-range plans that could lead to increased lending levels. Additionally, the HG program will benefit substantially if the new financial markets program stemming from the PSPS program can have a positive effect on lowering interest rates and,more particularly if the Government can improve its management and implementation of monetary policy.

12. Other Related Private Sector Development Programs and Projects

a. Development Studies and Training Project (DS&T)

The Development Studies and Training (DS&T) Project is an essential part of USAID/Sri Lanka's private sector development effort in providing inputs and impacting private sector development-oriented policy decisions. It is the principal private sector development project that has concentrated on changing the macro economic environment that will best facilitate future private sector development.

As indicated in Section A above and in Chapter V below, without major policy reforms, future developmental private sector assistance will have minimal impact. This project is especially important at this time in Sri Lanka's economic development as the Government continues economic reforms and searches for guidance on why, how and what to implement. The importance of the project to the GSL is also indicated by the GSL counterpart agencies- all the major economic policy players: Ministry of Finance, Ministry of Planning and Implementation, Central Bank, and Ministry of Industries, Science and Technology. The project began in August 1987 and will end in early 1994.

The purpose of the project is to assist the above mentioned agencies to identify and implement sound development policies and programs to:

a. Improve policy appraisal and development in agencies that are key to the design and implementation of economic policy reform;

b. Provide new skills to officials working on the implementation of economic and related policies and expose them to new ideas and concepts;

c. Enhance the performance of government agencies in implementing programs related to structural adjustment and policy in selected areas;

d. Improve the GSL's fiscal operations and budget management; and

e. Support policy-related analytical research by the GSL and private institutions.

As of this time, the project has completed 23 studies (end-of-project target is 24); trained 128 GSL officials within the United States and third countries (target is 138); trained 580 GSL officials locally (target is 970); completed 25 studies with policy recommendations (target is 33); and completed five projects to implement policy change (target is six).

The following list is provided to illustrate the type of research and information inputs provided to the government. The subjects areas, when compared to actual Government reforms, also provide information where the GSL has taken or disregarded policy inputs.

Table 5: Illustrative Studies Undertaken Since 1991

Policy Study Research	Date
Competition Policy in Sri Lanka	1991/92
Investment Promotion Strategy	1992
Tax Policy	1991/92
Export Trading Houses	9/92
Trade Dumping	6/93
Foreign Exchange Liberalization	5/93

Before the end of the project two other important activities are expected to be completed: providing funds to assist GSL budgeting procedures through provision of funds for computer equipment; and working on strengthening the Fiscal Policy Division of the Ministry of Finance and Department of Inland Revenue. Recommendations regarding future policy study modes, mechanisms and issues are provided in Chapter VI.

b. Mahaweli agriculture and rural development (MARD)

As mentioned in the earlier sub-section on MED, the MARD project supervised by the Mission's Agriculture and Natural Resources Office has sponsored or carried out several activities related to private sector development. MARD has encouraged development of commercial farming, start-ups of medium-scale enterprises, and put up $300,000 to help start a cold chain plant, similar to (and coordinated with) the launching of another plant under the auspices of MED. The program has also assisted product market assessments; and is contemplating a strategy for developing a sizeable export program.

c. PL-480 Title III policy reform measures

A number of private sector development-related activities have been supported under the umbrella program, including regulatory reform, private mill purchase of wheat flour, private sector imports of onions, chilies, lentils, and potatoes, and obtaining approval by the GSL of a time-specific action plan to increase the private trade at wholesale levels of wheat flour. Consideration is being given to a program to privatize distribution of fertilizer.

The PL-480 Title III program supports a policy reform component. USAID/Sri Lanka has used the component to undertake various research and policy reform efforts. Efforts have included:

- Fisheries Harbor Corporation privatization planning and implementation;

- Implementation of an intensive land survey and titling program;

- Plant quarantine procedural review and reform;
- Phase out of export taxes on tea, rubber and coconut;
- Liberalization of food commodity importation and trade;
- Restructuring of the Agricultural Insurance Board in order to reduce operating deficits and improve services to farmers; and
- Review agricultural programs and structure of state agencies in order to reduce Government expenditure and increase private sector participation.

The above activities have been supported by studies, policy reform, organizational restructuring, and procedural development and streamlining. The policy analysis for the Agricultural Planning and Analysis Project (APAP) and other Mission projects and activities also support such work.

d. Diversified Agriculture Research Program (DARP)

DARP, another project run by the Agriculture and Natural Resources Office, is underwriting a restructuring of the seed industry through establishment of private seed enterprises.

e. PVO Co-Financing II Project

This umbrella project has provided assistance since mid-1987 to chambers of commerce and other community-based organizations related to a broad spectrum of economic liberalization activities.

The purpose of this project is to enhance the performance of Private Voluntary Organizations in launching sustainable development activities by improving access to and control over development resources by all population groups, especially the disadvantaged, and in strengthening the voice of such groups through democratic processes.

Of the assistance of interest to the present assessment, the largest and most varied has gone to The Asia Foundation, which has provided a wide range of financial, training, equipment (especially computers), and technical support to chambers of commerce, legal education, legal/regulatory environment, and management education. The centerpiece of USAID assistance to the Foundation has been the Democracy and Law Initiative. Also, the Foundation's Books for Asia program has provided general and special collections in business.

Institutions assisted which are related to private sector development have included the SLBDC, the Post-Graduate Institute of Management (PIM), the Faculty of Law at the University of Colombo, the Sri Lanka Law College, and the Securities Exchange Commission. A grant to the Federation of Chambers of Commerce and Industry is being negotiated.

Even beyond the above, a wide variety of large and small grants has been provided under the PVO Co-Financing Project that has directly and indirectly benefitted private sector employment and activity in the broadest sense of that term. The work of CARE with small holders in tea, with access to credit, and with private seed production comes to mind, as well as Mission assistance to AGROMART for women in agro-based enterprises, Innovations Et Reseaux Pour Le Developpement (IRED) to micro-enterprises, and Jinaratana and Terre Des Hommes for vocational and other income generation training.

The assessment team discussed with Mission officers possible involvement in micro-enterprise development, in view of the importance of that area to a great number of Sri Lankan citizens in terms of employment creation and income generation. It was jointly decided that the best course would be to continue the Mission's past and present policy of assisting in micro-enterprise development in the informal sector through assistance to NGOs with programs specifically geared to that type of work. This is considered a better use of limited Agency funds than a separate, Mission project for assistance to micro-enterprise development.

f. New projects

Sustainable Enterprise Technology (SET)

The purpose of this project (currently only in the concept stage) is to support the sustainable and equitable expansion of Sri Lankan rural and urban private enterprises by improving their performance in choosing, acquiring, and mastering new management, production, environmental, and marketing technologies. Through cost-sharing grants, the program intends to assist 100 private export-oriented manufacturing enterprises in the Colombo area, 150 private small and medium-sized enterprises outside the Colombo area, and 100 private enterprises to acquire environmental technology. Such assistance will increase the competitiveness of Sri Lankan private enterprise and contribute to national goals for increasing employment in the private sector, increasing sales in both domestic and export markets, increasing investment in new technology, and development of more diverse products and markets for beneficiary enterprises. In doing this, the SET program will carry forward some of the more productive elements of the TIPS and MED programs. The concept paper for the SET project proposes starting in FY 1995, an LOP of five years, and an authorization of $10 million.

Policy Reform Support (PRS) Project

The purpose of the PRS project (also currently only in the concept stage) is to inform and improve the policy reform and implementation process in Sri Lanka. It will focus on providing analytical expertise and technical assistance aimed at addressing: (1) public service and legal/regulatory functions; (2) land and other natural resource policy issues; (3) financial sector reform and liberalization; (4) divestiture and privatization; (5) trade policy; and (6) food and agriculture policy issues. Among additional activities related to the subject of this assessment will be training for public and private sector policy-makers. Performance indicators will include reduced government control of productive resources, more accessible and efficient financial markets; improved legal, regulatory and policy performance, more responsive and streamlined government agencies; expanded competitive trade, particularly in food and agriculture; and sustainable pricing of natural resources and associated services. The concept paper for the PRS project proposes a starting date of FY 1994, an LOP of six years, and an authorization of $4 million.

Citizen Participation in Development and Democracy (CIPART)

This proposed project, now at the PID stage, carries as an underlying premise that "citizen organizations are an essential element of civil society in a democracy and are the most effective means of providing a voice for the viewpoints of ordinary people in the establishment of economic and social policies that affect their well-being." In support of those principles, the CIPART program will "seek to empower citizens to influence and to benefit from economic development by helping to establish, strengthen and support the activities of non-governmental organizations (NGOs) working in economically-viable programs of community development, employment and income generation; advocacy of recognized public-interest causes, including environment, human rights and business development;and representations of vulnerable and disadvantaged groups who are unable to fully voice their own needs and interests." A wide variety of NGOs will be supported, with one purpose being to encourage self-sufficiency and sustainability once donor assistance terminates.

Among the NGOs noted in the present assessment as being involved in private sector development will be chambers of commerce (particularly in provincial areas), trade associations, and legal and management education units. Special attention will be given to the close relationship between political and economic liberalization. The CIPART program will continue the Mission's encouragement and support for public sector-private sector policy dialogue. The PVO Co-Financing III component of the CIPART program will build on the 10-years of experience with the two predecessor projects numbers I & II. With a proposed starting date in FY 1994 and an LOP of six years, an authorization of $15 million is being sought, with an anticipated host country contribution of $5 million.

Chapter IV. SUMMARY ANALYSIS AND IMPACT OF USAID/SRI LANKA'S PRIVATE SECTOR DEVELOPMENT PROGRAM

A. Appropriateness and Attainment of Goals and Objectives

In previous sections of this report, a descriptive analysis has been given of each of the principal programs that have constituted USAID/Sri Lanka's attempt to promote national socio-economic progress over the past decade through a multi-faceted approach to private sector development. Some of the more quantifiable performance indicators were discussed in sections of Chapter III covering major projects. How the overall program has evolved along with the changing forces and factors that have confronted both the government and the business community have also been scrutinized.

In this chapter, the emphasis will shift to the macro programmatic level in an attempt to assess how well the Mission's private sector development programs and strategies have generally fulfilled the goals and objectives set for them. In the process of doing this we will speak to the question of the appropriateness of those objectives in terms of A.I.D.'s role and capabilities and the context of Sri Lanka's needs, aspirations, and capabilities.

The overarching goal of the Mission's program has been variously stated in recent documents as "supporting Sri Lanka's ambitious vision of becoming a 'Greener' democratic Newly Industrializing Country (NIC) with sustainable accelerated economic growth," within the next decade and, more practically, as promoting "broad-based sustainable accelerated economic growth."

In support of that general goal, however stated, the Mission gradually developed a timely and project-seasoned approach to private sector development programming, culminating in its April 1991 "Strategic Framework - FY 1992-1996" which spoke of "Sri Lanka's greatest promise" as lying in a strategy of "agricultural development-led industrialization," the priorities from which have shaped the structure and approach of U.S. assistance to the country. That "Framework Statement" and implemented projects have been addressed to such issues as expanding opportunities both through "a new private-public partnership" (especially PSPS, but also PPI, PEP, MED) and by promoting "an effective, dynamic market economy" (PEP, TIPS, HG, PL-480 Title III, PSPS, LPG, FMP) in "an active, pluralistic democracy" (CIPART, PL-480, MED, PVO CO-financing) that would benefit "all citizens on a sustainable basis." The multi-faceted program and its goals and strategic objectives have remained consistent to that direction to the date of this assessment.

The Mission has continued to refine its strategic objectives in promoting a "sound investment climate" and "increased competitiveness and growth of markets and enterprises." In the process, Mission planners have identified key programming thrusts to support across the entire portfolio. On the governmental front, these programming directions include policy reform, liberalization of the legal/regulatory environment, and reduced government operational participation in the marketplace through support for privatization efforts. On the business front, the Mission has sought to introduce technologies to improve competitiveness and international market penetration, to increase U.S. trade and business collaboration, to help create sustainable small enterprise activity and, more recently, to give increased attention to human resources development and participation of women in development.

Responsible evaluators should be cautious about saying that such broad-based goals have been completely "achieved." They are on-going aims that must be constantly addressed with fulfillment coming in stages. Nevertheless, the assessment team believes that the Sri Lanka Mission's program has made better progress toward attainment of such goals than found in most donor-assisted countries.

Most individual projects substantially achieved their particular project objectives. Some have not, usually when they lacked focus or attempted to do too much in too many directions. PEP and MED come to mind in this respect; but, in retrospect, even in these two cases, the projects can point to substantial accomplishments. At the minimum, valuable lessons have been applied to subsequent exercises, and have advanced efforts to work toward general goals and objectives. Table 6, below, is provided to summarize project performance and impact.

In concrete terms, TIPS and its companion IESC effort have definitely contributed to introduction of technologies that can increase Sri Lankan industrial efficiency and competitiveness in the international marketplace. The PSPS project has strengthened chambers of commerce and other private sector bodies, and has contributed to greater public sector-private sector dialogue and understanding. Most observers state emphatically that the SEC would never have been launched so successfully without USAID support; and liberalization policies and programs and the Government's privatization program would not have proceeded so well if USAID had not provided encouragement, guidance, and support.

Private sector investment, employment, and productivity have increased substantially in the last decade. It is impossible to state with exactitude just what quantifiable part of that progress can be attributed directly to USAID assistance, especially after only a very short-term visit like this one which is covering so much territory; but there appears to be general acknowledgment that USAID assistance increased awareness, provided institutional support and encouragement, and helped create a productive environment which made such advances possible. Often that is the more important long-term contribution. One is reminded of the landmark evaluation by Neal Jacoby of American assistance to Taiwan (the first A.I.D. "graduate" nation). He believed that while the program had been successful, particularly in promoting economic progress through encouraging private sector development, the gains were preponderantly the result of local drive, commitment, and funds, with American aid only speeding up economic development by five or six years.

The assessment team has rated the accomplishments major projects in certain relevant categories, as shown in the following table.

Table 6: USAID Private Sector-Related Project Performance Matrix

Project	Increased Employ.	Increased Sri Lanka Exports	Increased U.S. Exports	Tech. Transfer	Companies Created	Companies Expanded	Increased Liquidity	Diversified Capital Base	Institutional Strengthening	Policy Reform Inputs
PEP	AD	NA	NA	AD	NA	NA	NA	NA	AD	FA
IESC-VE	SU	SU	SU	SU	NA	HS	NA	NA	HS	NA
PSPS[1]	SU	NA	NA	AD	NA	NA	HS	HS	HS	SU
FMP	HS	NA	NA	SU	SU	HS	HS	HS	SU	SU
MED	AD	NA	NA	SU	AD	AD	AD	AD	AD	AD
TIPS	HS	HS	HS	HS	NA	HS	AD	NA	SU	AD
AgEnt[2]	SU	SU	SU	SU	NA	SU	AD	NA	SU	AD
PPI	NA	NA	NA	SU	NA	NA	SU	SU	SU	AD
PL480 Section 108 Loan Prog.	AD	NA	NA	NA	IA	IA	IA	IA	AD	NA
LPG	AD	NA	NA	NA	IA	IA	AD	AD	IA	NA
HG	NA	NA	NA	NA	NA	NA	AD	AD	IA	IA
DS&T	NA	NA	NA	SU	NA	NA	NA	NA	HS	HS
PL 480 Title III Policy Ref.	NA	NA	SU	SU	NA	NA	NA	NA	SU	HS

Matrix Legend

Highly Successful = HS
Successful = SU
Adequate = AD
Inadequate = IA
Failure = FA
Not Applicable = NA

[1] PSPS is composed of the Policy Support Unit, privatization and capital markets components. FMP is a continuation of the completed PSPS capital markets component but is assessed separately for purposes of highlighting activities.

[2] Both AgEnt and PPI are relatively new projects. Performance assessments are based on activities to date.

On its part, USAID/Sri Lanka has been commendably realistic about how much it has been responsible for the advances made in Sri Lanka's economy in general and in private sector contributions in particular. The Mission has recognized that its assistance can only be supportive and facilitative; but the Mission has been especially effective in spotting key areas for reform and in encouraging local authorities to address sensitive issues and initiate innovations.

Foreign aid programs throughout the Third World have been singularly ineffective in pushing local governments into directions or reforms which they did not wish to undertake, even when substantial financial pressure and leverage was exerted. Fortunately, Sri Lanka is blessed with a cadre of sophisticated leaders who are generally committed to reform, liberalization, and change, although that layer is thin and obstructionist forces from the socialist-oriented past are always present to present barriers to private sector ascendancy. In some areas (such as land and labor law or privatization of certain basic financial institutions and tax regimes) where local consensus and willingness to not exist, cooperation has been less, and progress incremental at best.

This point leads logically to the question of the appropriateness of USAID assistance in Sri Lanka. This also must be viewed on several levels. Has the assistance to private sector development been geared to local conditions and needs? Has it been the type of assistance that is appropriate for a foreign agency to provide? Has it been within the capabilities of the Mission to provide; and has it been designed and implemented in a cooperative effort with appropriate sensitivity and spirit of mutual respect? On all of these counts, the assessment team believes that the answers are positive in the case of USAID/Sri Lanka's program for private sector development.

B. Relation to Host Country Policies and Programs

A solid working relationship between the Mission and the Government has been demonstrated in both the design and implementation of USAID programs. Also, the type of assistance offered appears to have been attuned to the evolving stages and pace of Sri Lankan development, including timeliness when crises or shifts in local political and economic conditions made innovative initiatives appropriate. Events of the early and late eighties particularly come to mind in this context. There was also a fortuitous meshing of government attitudes toward private enterprise playing the leading role in economic development, rushing on the local scene in 1977 and after the 1980 election in the United States.

The coordination between the GSL and the Mission has, perhaps, been closer at top political and ministerial levels. At the medium and lower levels of the bureaucracy there has been predictable resistance to change that threatened long-established administrative patterns and prerogatives. This occurs in all traditional societies undergoing rapid change; but its manifestations in Sri Lanka have not unduly obstructed project success or constrained progress toward long-term objectives. Momentum and gradually changing attitudinal, behavioral, and organizational patterns have increasingly carried the day.

Time and time again, government officials interviewed during this assessment exercise have mentioned how timely USAID assisted them in making changes they wished to initiate. One senior financial official spoke glowingly of the short-term TA provided under the CAER-HIID program as his "invaluable overdraft account," upon which he could call for quick, high quality assistance on special issues.

As stated above, perhaps the greatest long-term USAID assistance in this field has been in increasing awareness in government circles on the ramifications of various economic strategies and in helping to create a general atmosphere favorable to reform measures leading to enhanced private sector development.

C. Overall Impact on the Private Sector and Private Sector Development

In addition to contributing to official public sector policy and regulatory environments affecting private sector development, USAID/Sri Lanka's programs have had a definite impact on private sector activity on two levels: (1) sectoral development; and (2) enterprise management efficiency and production technology. For example, the PSPS program has contributed substantially to the institutional capacities of the leading chambers of commerce and trade associations in providing services to member industries and enterprises, and in making possible a much improved, productive forum for open and consistent dialogue with the government on issues of national interest. Much more remains to be done on that score, however. The project has definitely made important contributions to developing Sri Lanka's capital markets.

On the level of direct impact on individual businesses (an area where USAID Missions often fall short), programs like TIPS-IESC, MED and, more recently, AgEnt have worked closely with entrepreneurs to solve practical problems facing them; while PPI is opening up entirely new and more ambitious ventures with enormous potential for major private enterprise involvement in the next stage of development. The Sri Lanka Mission has done a commendable job of working directly at the enterprise levels, in sharp contrast to many donor programs that have demonstrated a lamentable inability to come to terms with doing business with business.

The effect of Mission contributions in strengthening both sectoral organizations and individual enterprise capabilities goes far beyond quoting figures on employment creation, enterprise start-ups and the like, as important as they are. Their importance is that they have increased the general competitiveness, skills, and confidence of Sri Lanka's business community to address the more sophisticated challenges in the next stage of development.

Sri Lanka's business community has made remarkable advances in breadth and depth, and in managerial and technical skills since emerging from public sector domination after 1977. USAID encouragement and assistance has been appropriate and timely during the various stages of private sector development. Hopefully, this association and positive impact will continue as the business community meets new challenges in future, such as the need for increasing competitiveness in the larger urban, export-oriented companies and the more basic needs of potentially significant smaller enterprises in urban and semi-urban areas in the provinces as they start climbing up the economic ladder.

D. Effectiveness of Particular Types of Assistance

The relative success or failure of individual programs and the various components of those programs has already been discussed in some detail in Chapter III. In this chapter we are, as stated above, concerned with summary analysis; so the emphasis will be on assessing general programming techniques and approaches employed in those previously evaluated major programs. This points of this assessment will be offered in rather straight line fashion.

(1) Individual Mission programs tended to be more effective when they were well focused and targeted at realizable objectives. For example, PEP and MED's shortcomings primarily stemmed from an overly ambitious game plan; they tried to do too much and, further, ventured into areas where the ground had not been sufficiently prepared (policy reform in the case of PEP, and land problems for larger enterprise development in the case of MED).

(2) Conversely, the greatest evidence of tangible results was obtained when the assistance was targeted on carefully chosen specific tasks and enterprises. Examples of this would be problem-oriented TA aimed at individual enterprises (introducing technology through TIPS in general and IESC in particular) and, again, specially targeted problem-oriented TA at MIST (through the sub-project entitled Consulting Assistance on Economic Reform at the Harvard Institute for International Development - CAER-HIID). While one might say that the PSPS program was extremely broad in scope, its individual components were organized and operated quite separately. The SEC was launched separate from the creation of the venture capital firm; and the PSU devoted its time and efforts to working with chambers and similar groups. Even in the case of the PSU, assistance was most successful when directed at fairly specific tasks - setting up an informational program at the CCC or promoting dialogue (particularly on specific issues) with the public sector through the Federation and MIST. General assistance aimed at changing attitudes and organizational patterns bore lesser fruit, although the results of PSU efforts were satisfactory even here in an evolutionary, institutional sense. But such change takes time.

(3) MED achieved more tangible and sustainable results in its programs for small-scale business in EDP training and assisting with credit applications on a scale acceptable to local financial institutions.

(4) All programs dealing directly with private enterprises functioned more effectively when their assistance was demand-driven; although efforts to create awareness of the value of the assistance in advance has been essential and will continue to be as assistance may be targeted at new, less sophisticated entrepreneurs outside of Colombo. Transaction-oriented programs dealing with private enterprises were most successful when Government and USAID involvement or interference were limited.

(5) The Sri Lanka program showed clearly that a USAID Mission can work directly with business, a concept not accepted enthusiastically throughout the Agency. Although the TA efforts were demand-driven, the Mission demonstrated commendable skill in identifying and cultivating associations with progressive firms where the TA was used effectively. The program achieved good mileage and cost effectiveness from a relatively inexpensive TA effort.

(6) USAID's traditional strengths in encouraging policy reform showed in the programs of the Sri Lanka Mission, with the qualifier that significant success will be achieved when the local public and private establishments are ready and willing for change. The USAID/Sri Lanka showed astuteness in hitting at the right issue at the right time to a preconditioned receptive client. Policy studies, training, and other forms of TA were demand-driven, i.e., requested by government agencies and entities that were seeking information, inputs, or guidance on policy/regulatory reforms. These institutions were more or less prepared for change, or at least receptivity was reasonably high.

(7) The Mission's programming in the MED, HG and, especially, the LPG programs again demonstrated that loan programs channelled through private financial intermediaries have a greater chance of success than when channelled through government agencies or when USAID directly administers loan programs with private enterprises.

(8) The Mission has on occasion encountered difficulty in achieving harmonious relationships among long-term expatriate project advisory teams, the Mission, and their local counterparts. There has been a greater incidence than normal of removal of chiefs of party. Project activity and performance have suffered on occasion. This problem has evidently lessened in recent years; and relationships among short-term advisors, the Mission, and local counterparts have been remarkably good.

(9) While projects have been well-planned and implemented, the sustainability question often has been unanswered, resulting in projects or project components not fully realizing medium or long-term goals. This was evident in the case of the PSU of the PSPS program, PEP, and TIPS, among others, and should be watched carefully in AgEnt and PPI.

E. Relation to Other USAID Activities

Naturally, the main thrust of private sector development programming has shown up in activities connected with the first of the Mission's three strategic objectives, namely promoting increased competitiveness and growth of open markets and enterprise development. However, activities contributing to private sector development have occurred frequently in projects primarily aimed at the other two objectives: improved practices for sustained productivity of natural resources, and greater empowerment of a broad range of citizens to participate in development and democracy.

Most of the projects in the private enterprise portfolio have been designed and implemented out of the Private Sector Development Office; but there are numerous examples of elements of private sector enhancement in the projects run by the Agriculture and Natural Resources Office, Housing Office, and both the Programs and Projects Offices. The assessment team noted fairly prominent private sector development elements in MARD, DS&T, the PVO Co-Financing program, and projects still on the drawing board like CIPART, SET and PRS.

The overall Mission approach to programming has been commendably integrated and coordinated in order to accomplish central goals. This also includes Mission participation in central bureau-sponsored activities emanating from Washington, principally from Bureau for Private Enterprise (PRE) programs, such as the LPG, IESC, and CAER-HIID. Finally, over the past decade, Mission programs have been well integrated with the Agency's general goals and objectives as they relate to private sector development. Continued high quality programming and the necessary funding levels to support them will depend in large measure upon the Mission's ability to tailor private sector projects to evolving Agency goals and priorities.

F. Analysis of General USAID Procedures, Practices, and Personnel

From a programming standpoint, USAID/Sri Lanka is a particularly efficient Mission. The high degree of in-house programming integration and cooperation was mentioned in the immediately preceding section. Great emphasis is also placed on forward planning; project development work is proceeding at the present time on several future private sector development programming (SET, PRS, CIPART, the new HG effort, etc.) in addition to displaying readiness to discuss and consider the recommendations and options that will stem from this report.

Much of the bureaucracy that can hinder programming does not appear to be a restricting factor in the Sri Lanka Mission. Projects are expeditiously managed. This may be partly due to the fact that an unusually high percentage of Mission programming (at least in the field of private sector work), is developed at the Mission level and does not depend nearly as much as most Missions on service from central or regional bureau projects, IQCs, and the like, which often carry agendas of their own. As mentioned above, however, the local Mission has made good but selective use of PRE project assistance; and the Mission reports that when accessed, the PRE has responded well and expeditiously.

The Mission is meticulous in its attention to detail and monitoring project performance. For example, great attention is devoted to the PRISM system to keep track of performance indicators. Part of the success of this Mission's work in private sector development can be attributed to a fortuitous combination of competence and commitment in the American professional staff, plus recruitment of outstanding local staff, who have been given responsible duties. Evidence of sound top-level leadership is obvious throughout the program.

The Mission appears to be ready to respond to possible Agency changes in goals, structure, and funding levels, including training needs of the staff in Colombo as new staff members arrive to replace the experienced, capable, and well-coordinated team that has put the present program together over the past few years. It is the view of the assessment team that continued production of high quality programs can be accomplished without significant changes in Mission structure or ways of conducting its private sector activities.

Finally, the Mission was most cooperative and efficient in scheduling and supporting the present assessment effort, and in discussing the many issues involved.

G. Relation to Programs of Other Donor Agencies

In so far as the assessment team could determine, coordination of programming efforts is minimal among the major donor agencies operating in Sri Lanka. However, there are fairly consistent attempts to keep other agencies posted on general activities. The greatest consultation appears to take place in preparation for the annual Paris meetings. On the other hand, the team did not detect the turf problems one usually finds among the donors in most developing countries.

The UNDP and UNIDO are by their own admission not programming energetically or with special design in this field in Sri Lanka; but they have carried out a series of relatively small projects with private sector overtones. For example, they are assisting in the privatizing the sugar and small sericulture industries. They are also cooperating in several project dealing with public awareness on private sector development issues. The UNDP has assisted several program in entrepreneur development training. There has been an interest in hotel management training and tourism, including help in designing a tourism masterplan and convention business development. Several bi-lateral official agencies and NGOs also program in the general area of private sector development.

The World Bank and ADB are deeply involved in a number of major development programs aimed at promoting private enterprise and market-driven economics. The assessment team did not have an opportunity to discuss ADB plans and priorities for its assistance plan; so nothing will be said about its program other than to note its overall importance. The World Bank and the IMF are contributing substantial sums for in support of macro-economic reform, Structural Adjustment and, in the words of the Resident Representative, "to decrease the public deficit."

The World Bank has a privatization agenda in Sri Lanka, involving some of the major SOEs still in the government stable (the so-called "big bleeders"), and expressed some cynicism about the efficacy of the present "commercialization" program, a concept which the Bank itself only recently discarded after decades of mistakenly trying to prop up or otherwise rejuvenate inefficient money losers. While no startling innovations are planned for World Bank assistance to the privatization effort in Sri Lanka, the assessment team was given the impression that the Bank will subtly keep on the pressure for privatization of major SOEs and reform of the banking sector.

World Bank priorities, in furthering the primary goal of reducing the budget deficit, will be:

- to maintain strong growth in the context of a viable balance of payments position and general price stability;
- support a strategy that redefines the respective roles of the public and private sectors;
- infrastructure rehabilitation; and
- assist the Government in structural reform which includes: restructuring the Government's budget through public expenditure rationalization and continued tax reform; public enterprise reform and privatization; improvement in the regulatory environment to promote investment and competition; financial reform; and further actions to liberalize external transactions.

These priorities are certainly in consonance with what USAID wants to see happen in Sri Lanka. Three major donors interviewed spoke of how the World Bank and the USAID Mission appear to work well together, noting the influence of Bank funds and pressure and the advice and assistance of USAID technical assistance. Follow-up comments clarified that the relationship was informal rather than deliberate. This dichotomous but complementary approach to programming cooperation has been particularly important and productive in the fields of financial markets and privatization.

During the period of the present assessment mission, two meetings were held to which members of the donor and local business communities were invited. The first was to discuss the TIPS project and the second to exchange views with the invitees in regard to the present assessment exercise and private sector programming and development in general. Both meetings were well attended and lively.

Many of the Sri Lankan and other donor agency people interviewed by the team spoke very highly of the USAID Mission's leadership in the field of private sector development, acknowledging an influence and effectiveness far in excess of the financial resources available to the Mission in comparison with other donors.

In sum, the assessment team believes that increased consultation among the donors would reap measurable benefits to all concerned, particularly the Sri Lankans. This is not, however, a major recommendation or criticism, because the present informal system does produce satisfactory results and there is no evidence of egregious duplication or overlap. The USAID Mission is best qualified and experienced among the donor community to take the lead in encouraging that cooperative coordinating effort.

CHAPTER V. EMERGING TRENDS, ISSUES AND OPPORTUNITIES IN PRIVATE SECTOR DEVELOPMENT IN SRI LANKA

A. Trends in the Development of Sri Lanka's Private Sector

Sri Lanka's private sector continues in a state of transition that has existed since the beginning of economic liberalization in 1977 and which was further spurred by a second wave of liberalization in 1989-90. The economic liberalization has contributed to the country's economic growth mainly because of the private sector stepping in to fulfill demand, entering or expanding export markets, and moving away from government control of and operation in the market. Currently, the private sector is entering a third generation of challenges and opportunities that may be facilitated by further liberalization. This third generation of private sector growth parallels USAID/Sri Lanka's third generation of private sector development efforts.

The challenges now facing the private sector are accessing trained human resource personnel who are commercial-oriented to face current and future market needs; further expansion of access to capital to fund business start-up and expansion; and the creation of a legal/regulatory environment that sets transparent market guidelines and facilitates private sector growth. Opportunities are present in regard to domestic company growth to fulfill domestic demand, to enter into new or expand existing exports, and to attract foreign investment capital, technology and venture partners.

Statistical comparisons are provided below for the periods of 1990-92 and 1988-92, where the availability of data permits, in order to show the impact and relationship of USAID/Sri Lanka private sector development efforts. These are the most formative years to begin seeing the impact of the private sector on economic growth. Statistical tables are provided in Appendix D.

The private sector is growing as a contributor to GDP and has proven resilient to non-economic country and world events, such as the on-going conflict in the north and east and the Gulf War. Even with government and public corporation ownership of net domestic assets changing yearly, private sector ownership has steadily increased, averaging 21.46 percent growth in the period 1990-92 and 18 percent in 1988-92. As a component of ownership of total domestic assets, the private sector has increased its share to 66.7 percent in 1992 from 52 percent in 1988, a dramatic increase given economic and non-economic impediments. However, public sector net domestic assets keep on increasing (Rs. 47.9 billion in 1992 compared to Rs. 46.4 billion in 1988) thus hindering some private sector participation in these sectors and absorbing private sector capital. See Table No. 7 immediately below.

Table 7: Ownership of Domestic Assets
(Rs. Billion)

	1987	1988	1989	1990	1991	1992
Government	26.4	35.6	35.1	35.4	35.4	33.1
Pub.Corp.	7.4	10.8	13.9	15.6	14.1	14.8
Priv.Sec.	41.0	49.9	52.3	65.0	78.3	96.2
Percentage Change from End-of-Year						
Government	16.8	34.8	-1.5	.7	.1	-6.6
Pub.Corp.	55.4	46.4	28.5	12.8	-10.0	4.8
Priv.Sec.	12.0	21.7	4.7	24.3	20.5	19.6

The structure of GDP also shows a trend toward private sector spurred growth. In the period between 1990-92, the traditional productive sectors of tea, rubber, coconuts and paddy, sectors with some type of government involvement, have declined as a contributor to GDP. Tea alone has declined about 12 percent. At the same time, factory industry has grown by 23.7 percent in the 1990-92 period; and 95.5 percent in the 1985-92 period. Small and other industry has also shown signs of growth in the 1990-92 period with an increase of 10.7 percent.

Overall as a percent of GDP, the agriculture, forestry and fishing sector has contributed negatively to GDP growth and has become a smaller share of GDP, along with the mining and quarrying sector. The manufacturing and service sectors have both increased in growth contribution as well as a percentage share of GDP. As of 1992, services still contributes the majority to GDP (50.9 percent with an increasing trend); and agriculture, forestry and fisheries (21.4 percent with a decreasing trend) contributing more than manufacturing (18.5 with an increasing trend).

Industrial production grew by 47.3 percent in the 1990-92 period and 136 percent in the 1988-92 period. While the main growth in production is attributable to apparel production, other sectors, such as food, beverages and tobacco; wood and wood products; paper and paper products; chemicals and petroleum products; non-metallic mineral products; basic metal products; and other manufactured products have also had progressive growth rates. Capacity utilization is also high fluctuating between 81-83 percent in 1990-92, compared to 73-76 percent in the 1980-85 period.

The service sector has also had significant growth with an 11.8 percent increase in the period 1990-92 and a 32 percent in the period 1985-92. However, included in this sector are some of the large SOEs such as the electricity, gas, water and sewer sectors which have had minimal growth thus impeding private sector development (especially in regard to providing adequate economic infrastructure for private sector use); and the telecommunications sector which has benefitted from increased company and individual system utilization and has great potential for future development (including privatization and other communication services development). The financial sector has increased consistently since the early 1980s and continued at a more rapid pace in 1992. Large jumps in wholesale and retail trade show increased consumption and the growth of private sector vendors. The 'Other Services' and the above service categories can also be partially attributed to rising tourism numbers.

Value added growth rates for agricultural products have increased only 2.9 percent in the 1990-92 period (decreasing 1.5 percent in 1992 alone). The low growth rate is due to decreased performance of tea, rubber and coconut. The sector's growth has been supported by growth in the forestry/fisheries sector (3.1 percent in 1990-92). For the 'Other' category, value added has shown significant increases since 1990 (except for 1992) with an increase of 5.3 percent in 1990-92. These figures could exemplify a diversification of agricultural production away from traditional crops.

Value added growth for the manufacturing sector was 5 percent in 1990-92; 5.3 percent in the services sector; and 4.3 percent in construction.

Import amounts and patterns also show the increased consumption of the private sector and individuals. Imports increased 41.4 percent in the 1990-92 period and 114 percent in the 1988-92 period. Consumer good imports have increased 50.8 in the 1988-92 period; intermediary goods used for production and as inputs increased 31.6 percent; investment goods (building materials, transport equipment, and machinery and equipment) increased 115 percent.

Exports amounts have increased, but with an evolving pattern. Exports increased by 27 percent in the 1990-92 period and 70.2 percent in the 1988-92 period. There has been a decline in the contribution of tea, rubber and coconut products (including a drop in volume) and an increase in industrial exports mainly attributable to garment exports. However, other industrial exports and unclassified exports have remained steady or slightly increased. While the makeup has changed, the value and amount of exports have steadily increased in most product categories, including 'other agricultural products.'

Export diversification, by country and by product, is weak with the major agricultural groups (tea, rubber, coconuts) and apparel the major export items. The broad categories of "Other" agricultural and "Other" industrial production have grown dramatically but consist of only 4 percent and 21 percent of exports, respectively.

The formation and utilization of capital has also provided evidence of increased private sector participation and growth. The private sector has increased its share of gross capital formation and provides increasing amounts of investment. However, the public sector still maintains a sizeable amount of investment and savings.

Table 8: Sri Lanka Key Indicators: 1988-95
(as percent of GDP)

World Bank Estimates

	1988	1989	1990	1991	1992	1993	1994	1995
GDP Growth Rate	2.7	2.3	6.2	4.8	4.5	5.3	5.7	6.0
Gross Investment/GDP	22.8	21.7	22.2	23.0	23.4	24.4	25.0	26.0
Nat'l Savings/GDP	14.2	14.6	16.8	15.2	17.0	18.5	19.4	20.6
Pub. Investment/GDP	13.7	10.0	8.7	8.8	8.7	9.0	9.0	9.0
Public Savings/GDP	-2.0	-1.1	-1.2	-2.0	.2	1.0	2.0	2.6
Priv. Investment/GDP	8.8	11.5	13.2	13.9	14.6	15.5	15.9	17.0
Priv. Savings/GDP	14.0	13.3	15.5	14.8	14.3	14.8	14.5	14.9
Ratio of Public/ Private Investments	1.6	0.9	0.7	0.6	0.6	0.6	0.6	0.5

Source: Sri Lanka authorities and World Bank staff estimates

The percentage of capital formation by the private sector has surpassed that of the public sector since 1989, increasing from 51.1 percent in 1989 to 83.9 percent in 1992. Private sector growth has been at the expense of public corporations and the Government. However, while the latter two have decreased as a percentage of overall capital usage, the amounts they have absorbed has remained steady, and have even shown increases. Public corporations have increased 15.4 percent in 1991-92; and Government has increased 28 percent in 1990-92. Private sector capital formation has increased 86 percent in 1990-92.

Gross investment increases are also mainly due to increased private sector investment. As a percent of GDP, private sector investment has increased to 14 percent of GDP in 1992, compared to a steady public sector percentage of 8.7 percent. The private sector share has been rising. The public sector investment amount appears to have leveled off since 1990.

An analysis of the composition of public sector investment shows that increases have been steady in the areas of agriculture and fisheries, human settlements, economic infrastructure, and social infrastructure. Investments in industries, tourism and trade have been reduced significantly from 7.1 percent to 2.1 percent of total public sector investment. This breakdown indicates the Government's efforts to protect the agricultural sector, which has been performing poorly in traditional crops and also shows the results of privatization efforts in tourism and productive industry.

Monetary expansion (broad money supply) is mainly due to increased credit to the private sector with minimal expansion attributed to the public corporations and a decreasing influence of net credit to the Government. The identifiable credit to public corporations amounts to 10.2 percent of total domestic credit. The majority of this credit is to the major public corporations: Ceylon Electricity Board, Ceylon Petroleum Corporation, Cooperative Wholesale Establishment, State Plantation Corporation, Janawasana (JEDB), Ceylon Cement Corporation, Ceylon Steel Corporation, Sri Lanka Shipping Corporation and other corporations. Large SOEs not included in the above numbers, among others, are Air Lanka, the Petroleum Corporation and Sri Lanka Telecommunications Organization. The allocation of credit to these SOEs exemplify the impact they have on absorbing credit that may be applied to the private sector or reduce money supply demands (thus lowering interest rates).

A medium term growth policy, as described by the World Bank, is to gradually expand gross investment to 26 percent of GDP in 1995 from 23 percent of GDP in 1992. This includes keeping public sector investment at about 9 percent, which would be concentrated on the maintenance of infrastructure to support private sector development. Private sector investment is expected to continue to increase as part of gross investment.

The optimism of the business community is also reflected by companies entering new fields of business, diversifying service and production bases within Sri Lanka. The private sector and the country are becoming more active participants in regional and international markets. They are slowly taking advantage of new financial instruments and utilizing capital markets. Intermediate groups such as chambers and associations are developing, and increasing and streamlining policy-oriented inputs into the government. These are the sign of a private sector "strengthening its legs" to support future growth.

B. Major Issues and Constraints Confronting Sri Lanka's Private Sector

Sri Lanka has made significant strides toward economic liberalization; and the private sector has "stepped-in" to be the main impetus behind economic growth. As indicated above, the private sector has played the major role in contributing to employment and GDP growth, providing innovation to the marketplace, and integrating Sri Lanka into the regional and world economy-not small feats considering internal and external economic and non-economic impediments. However, private sector and overall economic growth has, and may continue to be, hampered by two factors: (1) the inability of the Government to address major structural policy, public sector restructuring, and institutional questions; and (2) the inability of the Government to define its role in dealing with a new operating environment and a private sector dominated economy.

USAID/Sri Lanka has been successful with working on a company-to-company basis (such as with TIPS and AgEnt) and has had several "macro" impact successes, such as work with the SEC, CSE, and in educating a variety of officials on certain economic liberalization policies and approaches. Private sector development is at such a stage now that some major internal impediments must be removed to facilitate any additional significant private sector growth. Future donor efforts will have minimal impact unless (1) projects are designed to circumvent already known barriers (i.e., such as assisting in the creation of new financial instruments or commercial education related project efforts); (2) unless they are specifically tailored to company-to-company assistance efforts; or (3) unless programs/projects face up to dealing with these "macro" structural issues on a policy development (i.e., providing information and guidance to the appropriate parties) and/or institutional reform basis. Numbers 1 and 3 provide more of a medium and long-term impact, while #2 is more short-term oriented.

1. Major Structural Policy, Public Sector Restructuring and Institutional Constraints

The following are the major impediments that have slowed or prevented private sector development.

a. Public sector reduction

Liberalization is hurt by the failure of the Government to substantially reduce the size of the public sector, increase the public sector's efficiency, and reduce the size of the public sector expenditure program. The Government and its SOEs continue to absorb large amounts of capital (as described in Section A, above) which has an impact on inflation (and thus the exchange rate) and capital availability to the private sector. The current size of the public sector affects human resource cost and allocation, which has repercussions in the availability of trained and qualified human resources for the private sector. It maintains the educational system, family, and individual attitudes of pursuit of a public sector rather than a private sector career. It also establishes public sector employment as a social welfare program rather than a professional career path; and, as a result of a myriad of other inefficiencies, creates under-employment, lack of transparency, and unresponsive processes and procedures that hinder private sector compliance and operation.

b. High interest rates and inflation

High interest rates are a proven barrier to private sector expansion and start-up efforts. Rates have also contributed to inflationary pressures (as the cost of money increases so does the cost of products and services). High interest rates are mainly attributable to high public sector spending (mainly wage-oriented) and servicing the deficit. While reduced interest rates can be achieved by reducing Government expenditure and the deficit, other moves can be made in regard to enhancing the liquidity of the monetary system, such as commercializing and privatizing the two state-owned banks, eliminating tax and incentive distortions, and establishing coordinated and transparent banking and finance laws and enforcement policies and procedures. Policy assistance is needed to assist the Central Bank in developing low inflation and low interest monetary policies. High interest rates are also hindering the development of other financial investment and saving mechanisms (such as stocks and bonds) because of high returns on standard savings accounts. A reduction of interest rates, in line with international rates at this time, will have a much more significant positive impact on private sector development than all the donor-financed projects combined. Also, Government must completely remove itself from the role of price setting, which is contributing to inflationary pressures.

c. Inappropriate labor policies

Labor laws, policies and attitudes are detrimental to the free movement of labor. The current framework protects its traditionally enshrined "job-for-life" attitude which is inappropriate for today's global market, as indicated by Eastern Europe and the Newly Independent States of the Former Soviet Union. It is especially inadequate given the competitive Asian region in which

Sri Lanka is competing and the current transitory stage of the Sri Lankan economy. Companies must be flexible to respond to markets at this fledgling stage. Even Japan is disposing of the "job-for-life" approach. The current Termination of Employment of Workmen Act of 1971 should be eliminated or toned down. It is of high cost to the private sector.

d. Access to land

Access to land is difficult not only to private companies but also for economic infrastructure projects (such as placing a communications transmitter or building a road). The process of accessing and utilizing land is long, costly, and frustrating. Limiting land ownership to 50 hectares significantly hinders agricultural development.

e. State-owned banks

The inability or unwillingness to privatize the state-owned Bank of Ceylon and the Peoples Bank is negatively impacting performance of the financial sector and thus private business. The inefficiencies and policy and operational impact the banks have had on the financial sector include: adding to the cost of money and thus higher interest rates; impeding technological growth and innovation, financial instrument usage and banking sector competition. It sets inadequate standards in the financial sector, and strengthens "easy-money attitude" among business and individual borrowers. It absorbs public sector funds; and it keeps public sector and SOE funds out of the hands of private sector financial institutions. The two banks have a dominant position in the market with over 24.3 percent of total financial system assets (private banks have 13.2 percent), and it comprises 64 percent of all banking assets.

f. Privatization of SOEs

The Government has embarked on an ambitious privatization program that has already resulted in privatizing 30 of 66 targeted SOEs as of this time. However, there are a number of large SOEs that should be addressed. These include public utilities (power- Ceylon Electricity Board, telecom- Sri Lanka Telecommunications Organization, water/wastewater treatment, waste disposal), Air Lanka, Ceylon Petroleum Corporation, Sri Lanka Railways, Cooperative Wholesale Establishment, Ceylon Shipping Corporation, the state plantations, the transport sector, sugar companies, cement companies and the two state-owned banks. These entities have been responsible for more than 80 percent of the total budget deficit originating from the public enterprise sector. These entities absorb, at the minimum, about 11 percent of total domestic credit annually. These SOEs have also been, for the most part, provided monopoly conditions, thus negatively impacting private sector participation and, in some instances, increasing costs. There are also many more SOEs and government production and service activities that can be commercialized and/or privatized at the national and local government levels.

g. Tax and incentive regimes

The Government has made efforts to improve the tax regime in order to reduce distortions and provide private sector incentives. However, not all the recommendations were implemented and a variety of incentive schemes have arisen which appear to be awarded on an ad hoc basis. For instance, the investment incentives offered by the Board of Investment (BOI) and the Export Development Board (EDB) overlap and create two processes a foreign investor must complete. Incentives and awards also appear to be awarded on an ad hoc basis. The results are more tax, earnings and investment distortions, and a discriminatory attitude between domestic and foreign businesses.

Streamlining and transparency are needed in regard to the tax and incentive systems. In 1990-92, the Government reduced the distorting effects of taxation on economic activity by improving the efficiency, flexibility, and simplicity of the tax system while safeguarding the revenue effort. The positive impact of reform has been reduced by the proliferation of tax incentives and administrative inefficiencies.

Further tax reforms needed (as recommended by World Bank) include improving indirect taxation by introducing a VAT and rationalization of the excise duty regime; reform of personal income taxes by eliminating surcharges; reform of corporate taxation to reduce the marginal effective tax rate to 35 percent and, perhaps, to 25 percent; and rationalization of tax incentives. An Institutional Development Fund grant is supporting a core group of VAT experts who are helping with the administrative measures; WB and IMF are also providing assistance.

h. Trade reforms

Despite recent reforms, Sri Lanka's trade is still highly protected and regulated. The Government's trade reform objective should be to continue reducing the level and dispersion of protection and reduce and eventually eliminate the anti-export bias. The World Bank suggests that tariffs need to be further rationalized by the removal of specific duties and special import arrangements, and complemented by improvements in customs administration. Ad valorem rates remain over 100 percent in many cases on goods with 50 percent and over rates. A 10 percent import tax is added to finance the Export Development Board (the World Bank recommends that this tax be eliminated). The World Bank recommends introducing a 3-band rate with a maximum tariff of 35 percent, with import certification discontinued. Liberalization of some import licenses should also occur. Licenses now exist on about 200 items, mostly agricultural products.

The IDA and IMF have supported the Government's program aimed at revising customs policies, simplifying procedures, strengthening organization and controls, and computerizing operations. Government should move ahead with the contract for services of a pre-shipment inspection company for a period of three years, and strengthen customs reform.

i. Business management and skills training

Private businesses lack trained personnel (or access to trained personnel) for basic business operations. While the business community has shown considerable entrepreneurial skill, businesses have been hindered in start-up and growth by limited access to commercially oriented personnel. Shortages are in the areas of management, finance, marketing, personnel, and law. The educational infrastructure to produce commercially oriented individuals is weak. Some of the larger companies have initiated their own training programs but at a high cost; and these programs are not fulfilling all demands. Training is needed in the financial sector, which is growing presently and where there is already a trading of skilled personnel. The legal training system also has to be more oriented to commercial law. Interventions are needed to provide skilled human resources for the marketplace in the short term, and for developing educational programs and/or institutions in the medium and long term.

j. Legal/regulatory environment

As the private sector develops, there needs to be an emphasis on creating regulatory bodies or reorienting government institutions to play a regulatory role rather than direct participation, control or management roles. This is especially true in regard to privatization efforts, financial sector operation and the legal system. Also, in regard to crucial economic infrastructure areas - such as power, telecommunications and transport - the Government must realize that these entities can survive in the private sector while providing needed services. The Government assumes a regulatory role to insure sector development and set market guidelines.

The Government must also develop the legal guidelines, institutions, trained personnel, and appropriate enforcement capabilities to undertake this role. This is a transformation process that is tied directly to sub-section "a" above.

k. Foreign investor attitudes

A main plank of the Government's growth plan is to attract foreign investment, especially to generate exports. The world market for foreign investors and companies has become more competitive as the number of investors declines and the number of attractive incentive schemes are promoted by almost every country. Some of the macro impediments identified above such as access to land, free movement of labor, high cost of money, and confusing non-transparent tax and incentive schemes make Sri Lankan an unattractive investment destination. Plus there is the internal conflict. In addition, the lack of availability of semi-skilled and skilled labor will further impact investment attraction as investors look for a more skilled and trainable workforce elsewhere. This attraction factor is especially important now to Sri Lanka as it competes for investor dollars in a very competitive regional market.

2. Defining Government's Role to Facilitate a Private Sector-Oriented Economy

The Government of Sri Lanka is struggling to deal with increased socio-economic demands to improve living standards, a conflict in the Northeast, growing employment demands, a staid government bureaucracy, a still strong and private sector resistant SOE sector, and a remaining attitude that the public sector is still the main provider and economic catalyst. In addition to this full plate, the Government must deal with a growing private sector that is just beginning to provide input to Government to make changes to facilitate growth or going around Government (such as creating new financial mechanisms) when it is impeding progress.

Given the many demands on the Government, private sector interests and priorities may be low on the list. While the Government appears to constantly support private sector development, its actions are sometimes actually unsupportive. As an example, the Government has asked the private sector to employ graduates from provincial areas, even providing the companies that participate in the program a grant per person hired. If the graduates were well prepared for private sector employment, they most likely would have been employed according to discussions with company and chamber/federation/association officials and by reviewing help wanted advertisements. Also, the employment grants are another distortion to labor market and an added cost to government spending.

The Government must see itself as a private sector referee, setting the guidelines, letting the private sector act within those guidelines, and stepping in when private sector entities either do not use or abuse the guidelines. This is a regulatory role that creates a fair playing field for all economic actors. This relates to financial system development, trade and investment development, tax system operation, privatization, the judiciary and budgetary allocations.

Change of attitude is also important in regard to provincial development. National goals for socio-economic progress cannot be achieved unless private sector development in provincial areas is encouraged and facilitated by providing the necessary guidelines and the appropriate infrastructure, especially roads. This attitude must trickle down to the provincial councils. Such an attitude and effort needs to be concentrated in order to channel the talents and energy of provincial youth into private sector productive activities rather than breeding unrest and instability. The government institutions, both national and local, must be partners with the private sector. The Government should not solely shun all economic responsibilities (i.e., such as building all of the necessary economic infrastructure) to the private sector. Such an approach would simply redirect hostilities toward the private sector.

The change of roles is important as the private sector grows. Experience has already shown that companies face an impasse because the guidelines (laws, policies, procedures, etc.): (1) have not been established; (2) have proven to be impediments and have not been removed, updated, or changed; or (3) have not been implemented. This is especially seen in the financial sector as companies and financial institutions have outgrown traditional finance methods and new instruments, mechanisms and talents are introduced; and in the judiciary as judges and attorneys struggle to deal with the demands of providing a commercial law legal structure.

Also, as mentioned previously, even in regard to privatization and infrastructure development, the Government must decide if it will privatize such important entities such as the CEB and the Sri Lanka Telecommunications Organization to undertake this regulatory role rather than the main actor role. Especially in regard to infrastructure development, BOO/BOT and other private sector finance mechanisms are ineffective if the Government's role is not defined, pre and post activity, sectors are not regulated properly, and clear guidelines are not established. The lack of economic infrastructure, while a constraint in itself, is part of a larger issue of defining the Government's role and developing a clear and cooperative public-private sector partnership. This partnership is needed to define each others' role for the planning, development, operation, and maintenance of economic infrastructure. The private sector cannot do it itself, especially in regard to being made responsible for providing non-productive economic infrastructure.

While the above may appear simplistic, it is a necessary argument to support further private sector growth and move the government- in action, not in placating words- to develop its role and so the private sector can develop its own role. The Government's annual GDP growth targets of 9 percent simply cannot be achieved under present conditions; and the World Bank's scenario of 6 percent annual growth will also be difficult to achieve under present conditions.

C. Major Opportunities in Private Sector Development in Sri Lanka

Sri Lanka's economic growth is dependent on the growth of the private sector. The private sector has proven in the last five years that it can take risk and compete to spur economic growth. Opportunities can be exploited if the private sector is provided the proper tools to start-up, compete and grow. These tools include skilled human resource inputs in management and technical areas; availability of and access to reasonably priced capital; an adequate economic infrastructure; a level and transparent legal/regulatory playing field; and a non-distorting and transparent tax system.

That Sri Lanka has a growing domestic market can be seen by increases in per capita GDP and the volume and variety of imports. Established trade and service companies are just beginning to enter the manufacturing sector to help fill this demand; and new firms, mainly small firms, are just entering the market. As entrepreneurs become more familiar with the modalities to establish firms and bring products to the market, more will enter the domestic market. This applies to the manufacturing (all sectors), agriculture (in crop diversification and downstream processing), and services sectors (finance, tourism, education and training, wholesale/retail, etc.). Also, with actual and planned privatization of 66 SOEs, new areas of private sector participation and competition are opening-up.

Sri Lanka possesses an available and flexible work force, especially in the provincial areas. While there is currently micro and small commercial and industrial activity in the provincial sectors, there is much room for growth. Much of the opportunities will be in agribusiness. There are also other opportunities for small scale manufacturing and commercial activities to supply domestic needs, and certain areas of comparative advantage to supply regional needs, including downstream production from its natural/agricultural resource base. While opportunities to supply goods to the regional and international markets will mainly be reliant on foreign investment, there are low technology international opportunities available to be pursued by domestic investors, given the private sector's increasing share of the capital base.

The main missing ingredients are adequate economic infrastructure (adequate roads, electricity and water), the channeling of entrepreneurial activity to the business formation and management stage, business management operations, and access to capital. Given its small size, dispersion of population, and natural/agricultural resource base, Sri Lanka has an opportunity to become a very integrated island-wide marketplace, meeting much of its domestic needs (especially reducing imports of consumer goods) and entering or expanding into markets with competitive advantages.

The export market also has potential for growth, although Sri Lanka must address the major impediments discussed in the previous section. Reliance on apparel manufacturing is an unstable growth policy, because this industry is very flexible and mobile globally. There is potential for manufacturing diversity along with further private sector involvement in the main export areas (tea, rubber, coconuts). This will facilitate attracting downstream investment in these areas.

The Government must constantly look at Sri Lanka's comparative advantage. Right now, this advantage exists in the areas of its main crops and cheap labor in some sectors (compared to other regional countries). Sri Lanka has the opportunity to reorient its education system to technical skill and commercial education and training to provide an employable workforce that can engage in medium technology production and services. Sri Lanka also needs the supporting transparent trade regime and more sophisticated and competitive support services such as transportation, finance, marketing, and packaging.

Imports have been a major catalyst in providing the intermediary and investment-oriented goods that have facilitated private sector growth. While the increase in the import of consumer goods shows increasing consumer demands that are not met locally, the increase of intermediary and investment-oriented goods show the need for inputs and components into the production process. These imports have literally fueled domestic production and also export production, especially for the apparel industry. Value added manufacturing has been a major contributor to export production and should not be eliminated as an investment pursuit. Value added manufacturing adds to diversification, development of domestic manufacturing activities and export earnings. Liberalization of the import regime could be further assisted by the World Bank recommendations regarding streamlining, rate changes and administration.

Also, the increased amount of imports should not be looked at negatively, given the above factors, and given the nature of Sri Lanka as an island economy with a limited natural resource base and a relatively small population, which create limited economies of efficiency in various manufacturing, agriculture and service sectors, except where they are export-oriented. Imports are required to not only meet higher standards of living, but also increased private sector demand for manufacturing inputs, equipment and technology.

There is potential for additional investment attraction, but Sri Lanka must realize that it is competing in a highly competitive region. The investment attraction efforts of Thailand, Malaysia, Singapore, Hong Kong (now aiming its investment attraction efforts at mainland China) are well coordinated with policies and laws to support and facilitate investors. In addition, Sri Lanka should be concerned with newly emerging market entrants such as Vietnam. Some of the major impediments noted in the previous section must be addressed. Sri Lanka has the potential for more regional joint ventures and co-production efforts with its neighbors within Sri Lanka and even outside of Sri Lanka, but local companies must be allowed to freely import and export capital to act globally.

In addition, there are also possibilities of more flexible technology transfer efforts on the part of companies with countries such as the United States, Japan and from within Europe. However, as TIPS performance has indicated, companies must be willing to invest in obtaining this new technology. There is potential to attract foreign involvement and capital for infrastructure development, provided there is a profit incentive for the foreign partner. There is also much room for support service linkages in regards to chambers and associations, financial institutions, transportation and infrastructure development.

The financial sector has a bright future, given the opportunity to obtain the necessary human resource inputs and provided a transparent legal/regulatory system (including enforcement and judicial procedures). The financial sector has performed remarkably well for the past five years in many innovative ways, despite the high cost of capital. The sector has the potential to further expand the use of existing financial instruments and provide new financing mechanisms. There is also much potential for extending services from the Colombo area to other parts of the country. This is slowly happening now. It should be noted that while there are some strong financial institutions, there are also weak institutions which are entering the market with little preparation or understanding of the marketplace. The sector will most likely go through some ups and downs because of the competition which will weed out the weak firms and benefit the sector and individuals and companies in the long term.

In summary, the following are opportunities for private sector growth:

- Existing companies expanding from traditional trade and service sectors and into manufacturing;
- Start-up and existing companies (micro, small, medium and large size) fulfilling domestic demand in certain product and service areas;
- Diversification of agricultural production to supply products for the domestic and export markets
- Downstream production in Sri Lanka's natural resource base- tea, rubber, coconut and other agricultural production;

- Tourism (given political and economic stability) which contributes in terms of foreign exchange earnings, service sector performance and manufacturing sector performance;

- Value added production, given an attractive and transparent import and export regime;

- Medium technology attraction, given Sri Lanka company knowledge to identify, access and purchase technology, attract foreign investment venture for technology, and having adequate technical and managerial skills to apply technology;

- Integrating Sri Lanka further into the regional and world market by having a regionally competitive, streamlined and transparent investment program, and commercial support service and communication linkages with regional commercial firms, chambers, associations, and individuals so as to exchange information and develop commercial transactions;

- Attract investment and have private sector input into economic infrastructure development, relegating Government involvement to a promotion, facilitative, and regulatory role;

- Further the development of financial sector firms for providing the private sector with financing options that multiply financial resources and support business investment for start-up and expansion purposes, further integrating Sri Lanka into regional and international money markets, and facilitating government monetary administration and capital raising efforts that facilitate private sector access to capital; and

- Private sector educational institutions for fulfilling private sector human resource needs (computer schools, management schools, technical training schools, etc.).

CHAPTER VI. USAID/SRI LANKA'S OPTIONS FOR FUTURE PRIVATE SECTOR DEVELOPMENT PROGRAMMING

A. Overall USAID/Sri Lanka Private Sector Development Program Goals and Objectives

Building on past project and program efforts and assisting the private sector enter a new stage of development, the strategic vision set forth by USAID/Sri Lanka, "Sri Lanka 2001: A democratic, 'greener' NIC" remains a vision to pursue, in line with the major socio-economic goals of the Government.

USAID/Sri Lanka's economic growth strategic objective of increased competitiveness and growth of markets and enterprises is supported by four sub-objectives:

(1) Reduced government control of productive resources;

(2) Improved technologies and more diverse products and markets;

(3) More accessible and efficient financial markets; and

(4) Improved legal, regulatory and policy performance.

While these sub-objectives are addressed by current projects, future project efforts can also be guided by the same objectives. Current projects and recommended future projects also take into consideration the development of the private-public partnership that is developing new opportunities. Since the new partnership has begun by applying the four sub-objectives, emphasis must now be placed on transforming this partnership as the Government begins to find its role as a social services provider and economic monitoring/regulatory body rather than an economic player and planner. At the same time, this transformation requires a more confident private sector to expand into new areas and become the economic catalyst for services and production.

While the pursuit of the sub-objectives is continuous, the economic growth strategic objective will reach a crossroads in the future. As the private sector grows, it will attain a point where growth will stop or be severely hindered by certain macroeconomic barriers. Addressing only the fringes of these barriers will have minimal effect on the private sector and may even result in capital flight, inflationary pressures, and give cause for retribution against the private sector. The private sector, in any country, can often be the scapegoat if things do not succeed, especially if it is promoted - by words, but not actions - to be the vehicle for development.

As a result, USAID/Sri Lanka's PSD office must tailor its programs and projects with the following specific prioritized sub-objective components in mind:

Priority 1: Private sector short-term and long-term management and technical human resource development.

Priority 2: Capital generation through financial market institution and instrument development.

Priority 3: Policy inputs, guidance, and training on major macroeconomic issues that are private sector development impediments.

Priority 4: Ensure a "fair and level playing field" between the public and private sector and within the private sector through legal/regulatory environment reform and development.

Priority 5: Transaction-based marketing information and technology dissemination.

These components should support the main private sector development project outcomes:

- Moving Sri Lanka's private sector entities and private sector-related Government institutions from developing country status and reducing reliance on donor assistance- a new stage of development assistance for USAID and a new stage of development for Sri Lanka;

- Developing existing private sector management and technical skills to meet current private sector needs;

- Developing long-term private sector human resource inputs to create a suitable labor market as well as funneling talents and energy of youth into productive private sector opportunities and entrepreneurial endeavors, rather than to public service and socially unstable activities;

- Employment generation in urban and provincial areas;

- Developing capabilities and mechanisms for the planning and financing of economic infrastructure;

- Production and service diversification for the domestic and export markets;

- Orientation of economic growth in the private sector;

- Major macroeconomic policy changes to facilitate private sector start-up, competition and growth; and

- Increased tax revenue generation.

In order to achieve the above, the private sector development project and program interventions recommended as a result of past experience and future needs fall in the following three areas.

(1) Policy reform to deal with major macro impediments. Such efforts should be concentrated and targeted from within the Mission, in coordination with other donors, and be timed to deal with educating government officials on need for change in certain areas (before it becomes a critical emergency) and in response to government requests. The Mission should address preparation of a streamlined and prioritized program and project approach to policy and legal/regulatory reform.

(2) Education and training to begin assisting in reorienting the educational system towards providing human resource inputs that can be employed in the private sector. This would begin with short-term private sector human resource training and long-term private sector human resource program and/or institution development.

(3) Transaction-oriented enterprise development by working in response to private sector demand in technology transfer, environmental concerns and business transaction development.

While this will constitute the core of the third generation of USAID/Sri Lanka private sector project efforts, the Mission should constantly be looking into the future, even beyond the third generation of programs and projects recommended below. It is estimated that the projects recommended below will end on/about 1999.

The targeted and specific assistance recommended demonstrates a maturing type of technical assistance indicating the development of a maturing economy, as Sri Lanka's: (1) the private sector grows; (2) the Government finds and adopts a private sector monitoring and regulatory role; and (3) the political-economic situation stabilizes, the socio-economic situation will require little, if any, USAID technical assistance. Placing a timeline on numbers 2 and 3 is very difficult in the current Sri Lankan context, especially given the constraints previously mentioned. While growth is being experienced by the private sector (number 1 above), the rate and type of growth are dependent on numbers 2 and 3.

However, this may be one country development case (if the Government's efforts are successful and changes made) where the termination of USAID's private sector efforts were a result of successful programming with the private sector and the Government no longer requiring assistance. The phase out of USAID private sector development assistance could be a reality in a medium-term scenario barring any unforeseen events. The basic private sector framework would have been established. This would include the development of Government institutions and a policy framework facilitating private sector development in coordination with a private sector with free access to inputs (labor, capital, land and production inputs) and with the opportunity to compete unhindered in domestic and international markets. A viable and sustainable stage of economic development would be achieved under these circumstances.

B. USAID/Sri Lanka's Private Sector Development Program and Project Options

1. Options for Existing Programs and Projects

a. Financial markets project

The FMP is an ambitious effort for further developing financial institutions and capabilities. The development of the financial sector is a long road with many blind turns given the nature of the sector and the different demands that arise as foreign practices are adopted and innovation takes place. The legal/regulatory environment development components of the FMP are timely. However, there are questions regarding the implementation and ability to enforce the recommended guidelines. In regards to the development of financial instruments, the market is already experiencing innovation with existing instruments and the adoption/creation of new instruments. Situations will be confronted that are not currently envisioned in the current FMP plan of action but will require responses in order for the SEC, Banking Commission, other Government agencies, and the financial institutions to act. Also, while work is planned to assist in developing a secondary market for the issuing of government debt, there are also other private and government long-term debt instruments (i.e., different grades of bonds, etc.) that can be introduced. These future issues are addressed below in a third generation for financial sector reform efforts.

b. Mahaweli enterprise development

Given probable Mission financial constraints in forthcoming years, plus the programmatical and geographical nature of the MED program, and the uneven performance of its various components, it is improbable that MED will be extended beyond its present PACD of 31 March 1995, at least in its current organizational form. However, there are certain components of the program that have achieved substantial success and warrant continued effort and USAID support. The program for creation and development of small-scale enterprises is one of these. Almost all reviewers of the MED program have viewed this component as creating MED's most sustainable results. To further advance the small-scale enterprise activity, application of some of the technology-oriented aspects of TIPS should be considered, since lack of technical skills (welding, carpentry, metal working, electrical, etc.) and quality and production control have been among the weaknesses of the small enterprises spawned by the MED effort.

Less susceptible to easy solution will be the fate of the network of 12 fledgling business centers created under the program. While the centers have provided invaluable advisory services to the client businesses hatched by MED, they have (at this stage of development) little chance of viability or sustainability without continued external support. While underwriting the expenses of this network cannot and should not be carried on indefinitely, one would not want to see the value of their services fall by the wayside prematurely. Their contribution to small enterprise development at a particularly important and vulnerable stage of maturation has been considerable and will remain so for another few years.

If USAID is not able to locate funds for this purpose, every attempt should be made to convince the MASL to support the centers for 2-3 years, even if on a reduced scale. By that time, the fledgling small enterprise sector should be better able to stand on its own. Other donors (the European Economic Community and the World Bank) are apparently considering support to some of the Centers. If such donors are eventually found not to be waiting in the wings, some form of limited continued Mission assistance might be addressed during the full-scale evaluation of MED planned for next year.

The effort to assist larger, agro-industry enterprise activity should not be expanded or extended, at least under MED, until the land tenure and irrigation issues are solved. When they are, such activity can and should be encouraged under other programs, particularly AgEnt.

b. Technology initiative for the private sector

The TIPS project has proved to be a success in providing transaction-oriented services to local companies. However, attention needs to be drawn to the fact that $1.5 million remains of the technology grants program budget. This is an important factor that may be an impetus for making TIPS more service-driven than grant-driven in the project's next 2.5 years. Also, how the TIPS project deals with this issue will also have an impact on the sustainability of the project in the medium- and long-term. TIPS services are in demand. The project has also proved that local companies are willing to invest in obtaining technology and market development once they are provided with an opportunity to see positive results. There is potential for making all or some project elements self-sustaining. The project should look at the medium- and long-term prospects of providing self-sustaining TIPS-like services after project termination, as indicated in the interim evaluation.

Also, the project's policy component should be utilized to address some of the previously mentioned private sector development constraints in line with other Mission and donor policy reform efforts.

c. Agro-Enterprise Project

AgEnt has already proved to be a success in its early stages. The project also confronts the sustainability question that TIPS confronts. AgEnt has also proved that companies are willing to invest in technology and market development. Since AgEnt is in its early stages, the sustainability question should be addressed at this point to provide the project staff with future direction and identify future opportunities.

In addition, AgEnt is beginning to reach out to the provincial areas. Agricultural sector development patterns show substantial opportunities for provincial-based agro-business development, mainly on a small scale, in a diversity of agro-business areas. There are various provincial chambers and associations that are willing to assist in the promotion and utilization of the project. The project, while looking for successes and providing a well thought out assistance screening mechanism, should work with various intermediaries to identify company-specific and task-specific assistance opportunities.

It should be noted that the AgEnt project has recognized the importance of including business and commercial orientation in training technical graduates, and is working with the University to set up an agro-business program.

d. Promotion of private infrastructure

In order for the PPI Project to be a total success and make a long-term contribution to economic infrastructure development and sustainability, additional work will have to be addressed in the following areas: (1) further develop a cadre of human resource capabilities in the short-term to undertake such transactional activities and develop related institutionalized educational programs in the long-term in order to develop future human resources; and (2) begin introducing new financial instruments to facilitate economic infrastructure development, such as company/facility equity offerings, corporate and project bond issues, and other financial instruments. These are especially important given Sri Lanka's medium and long-term economic infrastructure needs.

In addition, while the project will provide some success stories and examples, the end goal (possibly in conjunction with future policy and training activities) should be to create a legal/regulatory framework to oversee (not manage or operate) the successful entities and transfer such sectors as power generation and distribution, telecommunications, certain transport activities and possibly other activities into the private sector **keeping the regulatory role within the Government.**

The project's policy reform funds could initially address the above education and legal/regulatory framework issues.

e. PL 480 Section 108 Program and LPG Program

The utilization of these programs provides several insights that can identify and/or support the need for several financial sector development interventions. In the PL 480 Section 108 program, only 2 of the 5 IFIs have performed satisfactorily. (In the LPG program fund, utilization has been low with one bank not reporting any activity. While these programs are being phased out, there should be a review of their activities and utilization to discover why they have not been better utilized. Such an effort could provide insights that are not fully realized as yet regarding financial institution operations, interaction with the business community, financial institution management/credit operation training needs, private sector credit needs and access, and other insights.

f. Development studies and training and PL 480 Title III Program

The DS&T project will end in November, 1993 and the PL 480 Title III Program will end in June 1994, although a three-year extension of the latter program is being considered. These policy efforts have been effective in regards to providing training, information inputs, guidance and other policy-making inputs to assist the Government in economic liberalization efforts. Coordination of these efforts with policy components of current projects (i.e., TIPS, AgEnt, PPI, MED, FMP, and APAP) should be constantly revisited to insure a streamlined policy reform effort and approach to the Government. This is especially important with limited Mission staff and financial resources. Also, with the termination of these projects there needs to be a future project mechanism for such studies, policy guidance and training needs. This is addressed in section 3 below.

2. Options for Future Programs and Projects

<u>**Priority 1: Business Management and Skills Training**</u>

a. Private sector development need

Sri Lanka's private sector is growing at such a pace that it is currently experiencing human resource constraints. While the educational system has been producing a literate population, it is not providing appropriate human resource inputs for private sector-oriented development. Human resource training appears to be still aimed at providing people for public service careers, although it seems that this is slowly changing. Meanwhile, company owners and managers are constantly confronting shortages of skilled supervisory and managerial personnel in the areas of basic management, production management, supervision, finance, accounting, marketing, and personnel and legal services. This lack of personnel with basic management knowledge and skills has hindered companies in planning, operations, and growth.

The situation is especially acute in the financial sector. As the financial markets become more sophisticated so must its workforce. The human resource shortages are exemplified by high turnover of personnel between institutions. The lack of expertise is exemplified by different individuals having different definitions of basic financial terms, even at the financial institution management level.

There are needs in the following areas:

(1) Short-term management, finance, marketing, personnel and legal training for existing and start-up industrial and commercial companies.

(2) Short-term financial institution management, financial instrument utilization and credit process training.

(3) Long-term management, finance, marketing, personnel and legal services training at the university/institute level including curriculum development, program/degree design/administration, and teacher training.

(4) Internship program development country-wide via universities, chambers/associations/ SLBDC, private companies.

(5) Short-term commercial management, finance, marketing, personnel and legal training for upper- and mid-level management at privatized companies and companies to be privatized that include a significant percentage of public administrators on the payroll. Assistance should be provided on a cost-sharing basis.

b. Assistance modes and mechanisms

It is recommended that a business/financial management training project be designed to meet the above needs by funding a business management training team (tied to a quality U.S. business school) to assist in an MBA-like program or institution development. Project components would mainly include:

- specific short-term training needs identification;
- specific long-term training needs identification;
- provide short- and long-term course curriculum design to potential short- and long-term course and program providers;
- development of relationships with chambers/federations/associations country-wide and SLBDC for some short training efforts;
- provide a matching training grants program for short-term courses with chambers/federations/associations, SLBDC, SEC, financial institutions and enterprises to be privatized or privatized;
- address training needs outside Colombo through short-term commercial courses provided through chambers/federations/associations with a matching grants fund mentioned above;
- develop a country-wide commercial internship program through universities, chambers/federations/associations, private companies; and
- further develop existing MBA program (at the Post Graduate Institute of Management or the National Institute of Business Management) or design certificate/degree program; develop program administration capability including developing self sustaining cost recovery.

The effort would consist of a small team of one or two long-term advisors, plus short-term assistance. The team should be linked with a prominent U.S. MBA program. The U.S. institution should have high name recognition since educational institution reputation is very important to Sri Lankans. The selection of the U.S. institution should also consider whether the contracting institution favors a professional business rather than an academic approach.

Priority 2: Financial Markets Development- 3rd Generation

a. Private sector development need

Currently there is a lack of long-term debt instruments. The longest commercial loans are only 5-7 years. While the current FMP is looking at creating a secondary market for government debt, there are also forms of corporate and government debt instruments which can be adopted. These include bonds with different maturities and at different grade levels; integration of long-term debt into mutual fund type instruments; further international participation in long-term markets; development of project bond financing similar to municipal bond or infrastructure construction bond which PPI may get involved in; and development of more sophisticated private sector bond issues.

The FMP is currently looking into determining the efficacy of establishing a second-tier market ("A" board, "B" board type shares) or an Over-The-Counter (OTC) market. Further efforts will be required to follow-up on FMP activities. An OTC-like mechanism will help broaden the market to include smaller companies and attract new investors.

Additional assistance can also be provided to further develop the CSE's information system to be totally on-line so that information can be transmitted by the CSE to financial information vendors (such as Reuter's information service), brokers, and other financial intermediary offices throughout the country. This will increase information flows on capital market activity, attract new investors into the market, and bring new companies onto the CSE. A promotion/education program should accompany this component. This will assist diversifying distribution into other parts of the country.

Monetary policy resulting in a high interest rate cost-push inflation scenario is a major impediment to private sector development and further financial instrument development (some instruments cannot compete with high saving and certificate rates). There needs to be continuous policy and research support to assist the Central Bank (and other relevant actors) in carrying out monetary policy aimed at achieving lower interest and inflation rates. This will greatly assist economic diversification and small and medium-size business development.

The Central Bank needs to develop computerized information and reporting systems with banks and other financial institutions, and must develop human resources to manage and operate such systems. With the increasing sophistication of the financial sector, the Central Bank is in danger of falling behind in its policy guidance and monitoring roles.

There also needs to be further development of the SEC and other financial regulatory government units (eg. Central Bank) in legal/regulatory development and enforcement. The FMP will only address some of these current needs. The market will continuously evolve creating new regulatory/enforcement needs.

The National Development Bank (NDB) will be reviewing its portfolio of 800 firms to identify and work closely with 25 firms that would be interested in placing shares on the CSE. While the NDB has the financing and some of the support services to facilitate this process, it needs assistance to provide company education on the benefit and risks of placing shares on the CSE. Further capability development is also needed in the areas of company restructuring, financial packaging, and management and profitability development. This is an opportunity to train NDB and other financial institutions on market directed company restructuring and financial packaging.

b. Assistance modes and mechanisms

A third project team is recommended to follow-on current FMP project assistance (which is due to end in 7/96, but current team members will be departing prior to this date) in order to concentrate on the above areas. Such an effort would require a project team of about 4 to work with the SEC and the Central Bank. Assistance to the NDB could be managed by one person with short-term visits of company specialists on a case-by-case basis.

A low interest rate/low inflation monetary approach should be communicated through policy research, case studies and visits of U.S. Federal Reserve officials.

The Central Bank has the funds to purchase the necessary hardware and software for a centralized financial information and reporting system. The Bank needs assistance for designing an appropriate system, seeing how other country systems work, training on system use, and for information management and application. This can be done with a Central Bank Information Specialist (included in the 4-member team mentioned above), short-term visits of information/computer consultants, and short-term overseas visits to regional Central Banks, U.S. Federal Reserve Bank and other appropriate Central Banks.

The above efforts should be well coordinated with the World Bank, IMF and ADB.

Priority 3: Addressing Major Economic Policy Reform Issues

a. Private sector development need

USAID/Sri Lanka has the opportunity to streamline major policy reform efforts. Assistance should be provided contingent on moves on certain policy planks to the extent possible. While the Government has achieved much in terms of carrying out policy reform to encourage private sector development, certain key economic policy reforms remain to be taken if real impact is to be made that will facilitate private sector start-ups and expansion. There needs to be a streamlined effort to develop the Government's political will which is a long-term educational process. Research, support and emphasis should be in the following areas:

- Assist in supplying information/advice on transforming Government's role from directly managing and operating economic infrastructure to developing legal/regulatory environment and bodies for Government to create transparent guidelines and monitor private sector operation of various areas including: power generation, telecommunications, transportation (land, sea, air), and water/wastewater facilities. Research to support the privatization of large SOEs which are major impediments to private sector participation, competition and infrastructure development (especially telecom, Electricity Board, CWE, the two state banks). Also underwrite research to support further privatization efforts of Government service and production entities not yet identified.

- Investigate issues surrounding land ownership/allotment size.

- Assess enterprise performance pre- and post-privatization stages and developing lessons learned for future privatizations.

- Encourage public sector reform- while this is not directly within the Mission's jurisdiction, large and increasing public sector expenditures do impact interest rate, financial market liquidity, public reliance on government, and private sector human resource development.

- Promote labor law reform and arbitration.

- Encourage transparency in the economic policy making process including public opinion and private sector input.

- Streamline trade and investment incentive schemes/tax system to reduce and/or eliminate the number of tax, trade and incentive schemes causing market distortions, local/foreign company discrimination and impacting domestic investment; to lower corporate tax rates and closing loopholes; and to strengthen tax collection capabilities. The Mission should coordinate with World Bank/Foreign Investment Advisory Service on incentive scheme reduction and elimination, and work with other donor agencies on tax reform at the policy decision-making level, policy/procedure implementation level and institution building level.

- Assist education system reform at all levels aimed at producing job market participants with employable skills compatible with current future needs.

b. Assistance modes and mechanisms

The Mission has already prepared a concept paper for a policy reform project as a follow-up to the DS&T project. The proposed project, the Policy Reform Support (PRS) project, is consistent with current USAID/Sri Lanka goals and objectives and consistent with the findings and recommendations provided of this report. The only added emphasis that can be suggested for the concept paper is to place more emphasis on output implementation, i.e., policy reforms, agency restructuring, training, etc. Past policy efforts indicate that sometimes short visits by high profile individuals have great impact in providing the Government with policy direction. This could be followed by more low profile technical assistance. In addition, a prioritized list of private sector policy reform items that can be facilitated through this project should be prepared, in coordination with other Mission units, in order to support a coordinated approach. The prospective project should begin as early as possible in 1994.

To follow-up on the past progress of the PSPS/PSU effort, this project effort should enlist the established capabilities of the chambers/associations/federations/SLBDC to undertake specific policy research efforts that are responsive to USAID/Sri Lanka policy reform research efforts or the needs suggested by the chamber/association/federation/SLBDC that are in line with USAID policy reform efforts. A grant application/award process should be established for these research efforts as sole chamber/association/federation/SLBDC efforts or in conjunction with USAID/Sri Lanka present and future short-term and long-term research and policy reform efforts.

Priority 4: Private Sector Legal/Regulatory Environment

a. Private sector development need

Businesses need a fair, level and transparent playing field on which to compete and take risks. The Government must define its role to facilitate private sector activity. There is an evident need of action to develop a transparent, coordinated and systematic private sector legal/regulatory framework that can guide private sector activity. Efforts need to be concentrated in the areas of: business start-up, anti-trust, bankruptcy law, debt recovery law preparation; and banking/finance related law review and streamlining. Some of this is addressed, with various degrees of sufficiency, in the Companies Act.

There is a need to develop the judiciary and legal system to deal with applying and enforcing commercial-related laws. This includes 1) continuing education of lawyers and judges to administer modern commercial and financial regulations and laws; and 2) developing the judiciaries capabilities and system to deal with commercial-related laws and enforcement.

Also, there needs to be attention paid to enforcing the regulatory framework through various statutory bodies such as the SEC and Banking Commission.

b. Assistance modes and mechanisms

The main objective is to assist the transition of the Government's role from an actor in the market to a private sector facilitator by improving its performance in regulating a market economy. Assistance could provide specific long-term assistance for transparent, efficient and modern judiciary procedures and training (through the Sri Lanka Law College). Short-term technical assistance could also be provided for specific policy and legal drafting efforts through the recommended Policy Reform Support (PRS) project.

Initial work would include an overall assessment, preparation of an overall project framework and contractor plan to carry out identified activities. This effort should take about six months. Follow-up would be provided by a one or two-person team, with one person focusing on education program design and curriculum development and the second person focusing on orienting the judiciary system towards dealing with commercial law. Short-term assistance would be a necessity for short-term training and other technical areas. A tie to a prominent U.S. law school, with a solid record in international business law, would be ideal.

Components of the project would include:

- Law school long-term commercial law program development, curriculum development and teacher training;
- Short-term training for current lawyers and judges via the Bar Association and the Judges Institute; and
- Judiciary system process and procedure development for commercial law application.

It should also be noted that the World Bank is considering several technical assistance efforts in regard to commercial and financial law and policy development, such as the Banking Act, Companies Act, Fair Trade Commission Act, tax policy, etc. Any USAID/Sri Lanka effort should be coordinated with the World Banks efforts. The Asia Foundation has also provided short-term assistance in this area (short-term training, Law School class material preparation, books and journals, etc.). This is definitely an area where efforts should be coordinated and expanded. For instance, the World Bank is providing assistance to the Registrar of Companies Office, mainly aimed at providing much needed computerization. The office also requires short term staff training that can be coordinated with World Bank efforts.

Priority 5: Company-Specific Transaction Development

a. Private sector development need

There needs to be continued assistance in technology acquisition and market development, as well as emphasizing additional areas such as management, production, and environmental aspects of commercial operations. The TIPS and AgEnt projects have proved that there is a demand for demand-driven transaction-oriented facilitative assistance provided on a cost-sharing basis. However, these projects are only touching a small segment of the business population, even though they have proven to be highly successful. There also needs to be an emphasis on provincial as well as urban private enterprise development.

Any effort should begin with the emphasis on developing a self-sustaining institution over a specified time period, and developing a sliding scale of grant assistance over a number of years and especially to repeat clients.

b. Assistance modes and mechanisms

The Mission has prepared a concept paper for a project to meet the above needs. Called the Sustainable Enterprise Technology (SET), this project is consistent with current USAID/Sri Lanka goals and objectives and consistent with the findings and recommendations provided of this report. An emphasis must be placed on establishing a self-sustaining institution that becomes less reliant on providing grant money as a company's incentive to receive services from the established entity. There are several successful efforts that can be used as a model.

The project should enlist the chambers/associations/federations and other potential multipliers to reach out to areas outside of Colombo. This "network" development should not have a financial cost since the multipliers should communicate this project as a service to its members. A prime intention of SET is to support development of provincial small and medium business should be actively pursued.

The project should not concentrate on bringing only large company U.S. business specialists, but also attract more small and medium-sized company specialists who are familiar with current technologies and ways of doing business.

C. Development of USAID/Sri Lanka Program Management and Capabilities

While the above recommended strategy is targeted, USAID/Sri Lanka must face the realities of the USAID-wide funding situation. During the third generation of projects, funding levels may be decreased or Mission personnel shifted or reduced. While past experience has shown an integrated Mission approach, such integration may become more of a necessity in future years. Streamlining activity in the above concentrations (e.g., integrating the ongoing PPI Project and Housing Program with the Private Sector Development Office) will help insure integration and an efficient use of expatriate management/staff, local staff and consultant resources.

The projects recommended are mainly oriented towards technical assistance, not grants or loans. Past PSD experience indicates that this type of funding is manageable and can be utilized efficiently. The approach, with an emphasis on sustainability, also multiplies the investment return of each U.S. dollar. Impact is intended to be both immediate and long-term in forming the proper institutions, laws/policies, and human resource capabilities.

Minimum staff levels needed to implement the strategy would include a Chief of the Private Sector Development unit, plus a Private Enterprise Officer. Each project should also have an assigned project manager. Local staff are capable of performing these project management roles. A maximum of 2 or 3 local staff are sufficient to assist in project management, depending on which programs and projects are adopted and when existing projects are terminated. Other Mission management and staff inputs would also be provided, such as for the PRS project.

The main output of such an approach is to show the Government, private sector, public and the donor community that USAID has a responsive and tailored program that is results-oriented for the short- and long-term.

D. Coordination with Priorities and Programs of Other Donor Agencies

As indicated above, there has been informal coordination among the donor community. USAID/Sri Lanka private sector development activities have been on the cutting edge for Sri Lanka. USAID/Sri Lanka's reputation as a leader in this area provides other donors with the ability to concentrate their efforts in related areas, providing an overall net of assistance to facilitate and sometimes catalyze economic policy reform.

There are areas for future cooperation, mainly in legal/regulatory environment development and addressing major macroeconomic policy reforms, such as monetary policy, privatization of large SOEs, privatization of other government services and entities not yet identified, tax reform, trade liberalization and public sector expenditure reduction. Specific areas of cooperation are identified in the above recommended project descriptions. The PSD unit personnel should continue to update other donor institutions on activities and follow the activities of the other donor institutions to prevent duplication of effort and potential activity/policy conflict. A streamlined pursuit of a policy reform agenda would best serve the complementary interests of USAID/Sri Lanka, other donor agencies, the Government, and the private sector.

In addition, USAID's linkages to the private sector (companies, associations, chambers and federations) is unsurpassed among the donor community. USAID should use the information obtained from this network to supply information to other donors on private sector policy reform and project initiatives. This network should also be used to support USAID/Sri Lanka's objectives in discussions with the Government and other donor institutions, adding substantial leverage to the Mission's policy reform and project efforts for the benefit of sustained development in Sri Lanka.

Chapter VII. CONCLUSIONS

A. Findings

1. *Major Goals and Objectives Appropriate and Achieved.* The major USAID/Sri Lanka Mission programs for private sector development have achieved most of their goals and objectives; and those goals and objectives have generally been in consonance with the policies, priorities and programs of the Government of Sri Lanka.

2. *Effective Collaboration with Counterparts.* The Mission has worked closely and effectively in Sri Lanka with both the Government and private sector in both design and implementation of private sector development programs.

3. *Facilitation of Public-Private Sector Dialogue.* USAID encouragement and assistance has facilitated public sector-private sector understanding and productive interchange and cooperation through a system of monthly meetings between business leaders and senior government officials; but the Government has not yet clearly defined its role in a changing, market-driven economy where the private sector will be the dominant driving force.

4. *Need for Continued Economic and Regulatory Reforms.* The Government's past and existing policy framework, legal/regulatory environment, and liberalization efforts have been largely successful in bringing the country to its present improved economic status, but require reform and refinement to meet new and more sophisticated international competitive challenges in the future spawned by past successes. Middle and lower levels of the bureaucracy are still control rather than service-oriented.

5. *Increased Competitiveness of Sri Lankan Enterprises.* The Colombo-based business community has matured considerably in recent years and is increasingly sophisticated, confident, and internationally competitive. Overall, the private sector has become a more significant contributor to GDP, employment, and tax revenue generation. The manufacturing, service, and construction sectors are diversifying and progressing, while most of the traditional agricultural crops, particularly in the heavily state-dominated plantation sub-sector, have been stagnant or declining, thus holding back a overall healthy agriculture sector. "Other" categories of production and export for the manufacturing and agricultural sectors are showing positive growth trends.

6. **Improved Capital Markets.** The improvement in the functioning of the Colombo Stock Exchange and the launching of the Securities and Exchange Commission could not have been accomplished as well without the encouragement and assistance of the USAID/Sri Lanka Mission.

7. ***Business Management Constraints.*** Management and business administration education is presently inadequate, not geared to professional, practical business issues and needs; the need is for improvement in both short and long-term business and management education/training. English language skills are inadequate (particularly in provincial areas), seriously inhibiting fulfillment of the private sector's potential in today's competitive market.

8. ***Need to Increase Public Understanding of Privatization.*** Public confidence in the Government's privatization program has lagged after a promising beginning. While most of these deficiencies have been corrected, negative perceptions persist among the general public. There is a need for a renewed public awareness campaign to increase understanding of the nature and goals of the Government's privatization effort, particularly since the Government will soon be confronting very difficult decisions related to privatization of larger, more complex SOEs.

9. ***Gap in Support for Provincial Private Enterprises.*** There is a gap in assistance programs between what is provided through socio-economic programs for micro enterprises in rural areas and to larger, more complex companies mainly in the Colombo area; a significant group of small and medium-scale enterprises in provincial business centers do not generally receive the assistance their potential importance for expanded activity, employment creation, and income generation warrant. Provincial chambers of commerce are presently too structurally and functionally weak to play their proper role in promoting provincial business development. However, there are concerns as to how to best provide effective private sector assistance at the provincial level.

10. ***Land Tenure Problem.*** Prospects for developing substantial activity among larger agriculture-based enterprises in rural areas will be minimal until questions of land tenure are resolved.

11. ***Commercial Law Constraints.*** The legal community needs to develop greater expertise in commercial law to enable it to better serve the needs of the business community.

12. ***Lack of Long-term Debt Instruments.*** Financial markets currently lack long-term debt instruments, which is severely limiting investment potential and economic growth. High interest rates are hindering economic diversification, investment and, especially, small business development.

13. ***Distorting Tax, Trade, and Investment Regimes.*** Present tax and trade regimes, and incentive systems are overly elaborate, confusing, and regressive, causing market distortions and impacting negatively on domestic investment.

14. ***Foreign Investment Constraints.*** Potential for major increases in foreign investment in Sri Lanka is limited because of security and political instability, an inflexible and politically sensitive labor situation, infrastructure bottlenecks, and lack of transparency in the legal/regulatory environment.

B. Recommendations

1. ***Human Resources Development.*** Support programs promoting private short and long-term human resources development, particularly in management, finance, accounting, marketing, personnel administration, and legal affairs.

2. ***Capital Generation.*** Encourage capital generation through support to efforts aimed at improving financial sector institution operations and developing additional debt instruments.

3. ***Macro-Economic Policy Reform.*** Provide policy inputs, guidance, and training on major macroeconomic issues that are impediments to private sector development.

4. ***Legal and Regulatory Reform.*** Help insure a "fair and level playing field" between public and private sectors through legal/regulatory reform and development.

5. ***Enterprise Development.*** Continue and expand efforts to encourage transaction-based marketing information and technology dissemination.

C. Lessons Learned

1. ***Impact Greater When Assistance is Demand-Driven.*** Programs dealing directly with private enterprises functioned more effectively and achieved greater impact when the assistance was demand-driven. In such cases, the client firm had at least identified a problem or an area for investigation, realized (or were made to realize) that something should be done about it, and requested targeted assistance. In the case of technical assistance involving IESC-VEs, the firm also had a financial stake in the project, an added incentive for effective use of the assistance. A corollary lesson is that the nature and value of the assistance must be promoted to increase awareness leading to the demand factor.

2. ***"Hands Off" Approach Pays Off.*** The "hands off" policy of both the USAID Mission and the Government of Sri Lanka in regard to business transaction program operations in the TIPS and AgEnt projects paid handsome dividends.

3. ***More Attention Should Be Paid to Sustainability.*** A review of USAID/Sri Lanka projects and programs indicates that long-term effectiveness of the programs could be better assured if more attention is devoted to sustainability concerns when designing programs. This was especially noted in the cases of TIPS, AgEnt, PPI, and the component of PSPS dealing with strengthening of chambers of commerce. If such project are not concerned with sustaining their respective implementing entities after project completion, "sunset provisions" should be included in project design.

4. ***USAID/Sri Lanka Private Sector Development Program Success Factors.*** The general success of private sector development programs designed and implemented by USAID/Sri Lanka is due to many factors. Three special traits stand out that could benefit other programs:

a. **In-house coordination and integration.** USAID/Sri Lanka has stressed coordination and integration among Mission programs and offices;

b. **Extensive public and private sector network.** USAID/Sri Lanka has gradually developed over the years an extensive network of capable, committed, and influential Sri Lankans in both public and private sectors to draw upon for advice and counsel and appropriate action; and

c. **Working on both policy and enterprise levels.** USAID/Sri Lanka has shown clearly that private sector development programs have a better chance of success if the programming approaches and mechanisms involve working at both the policy and enterprise levels simultaneously.

APPENDICES

Appendix A

ASSESSMENT'S SCOPE OF WORK

APPENDIX A

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EXHIBIT 1

SCOPE OF WORK
USAID/SRI LANKA PRIVATE SECTOR DEVELOPMENT PROGRAM: IMPACT AND OPTIONS

1.0 Title of Study
USAID/Sri Lanka Private Sector Development Program: Impact and Options

2.0 Purpose of Study
The purpose of this study is to provide USAID/Sri Lanka with: (1) an assessment of the impact of the Mission's private sector activities to date; (2) an analysis of the successes and failures of the Mission's private sector activities; and, (3) recommendations for the Mission's future private sector development activities.

3.0 The Private Sector Development Context
Due to its strategic location on major shipping routes, its famed spices and precious stones, Sri Lanka has had a colorful history of having an active trading community. Nevertheless, from the middle of the nineteenth century the private trading community was subsumed by the British colonial administration which began to control a major share of economic activity, particularly with respect to the provision of essential services. Private business activity was confined to the plantations and export, import and retail trades, which for the most part were dominated by expatriate (British) firms. Even during the early twentieth century, lack of access to credit from expatriate banks kept indigenous entrepreneurs within the traditionally land-owning business community. Thus, until about the mid-1950's, a classic dual economy, with an export-oriented expatriate plantation sector separated from a indigenous peasant subsistence sector persisted in Sri Lanka.

Even with independence in 1948 and greater self-rule, state domination of economic activity remained the norm as the colonial administration was transferred to indigenous control. In 1956, a newly elected government made a conscious move toward industrialization with a view to ending "economic dependence", by embarking on an import substitution program with import controls, direct government involvement in production activities and direct controls on trade and finance. State domination in industry and services continued to grow throughout much of the late 1950's and 1960's with the private sector relegated to primarily import substituting industry and consumer goods. During the early 1970's, the public sector further consolidated its power base with the nationalization of large private companies, a number of service industries and most of the plantation sector.

In 1977, the United National Party (UNP) moved away from this socialist-oriented policy environment that dominated the preceding decade and embarked upon a sweeping liberalization of the economy, involving a series of reforms of industrial and trade policies. The previous government's policies had created an environment where competition was limited and industries developed only as import substituting activities behind highly protective barriers. The post-1977 period, in contrast, sought to promote the private sector and, by a number of incentives, resuscitate it to the point where it could become the engine for economic growth.

Throughout the 1980's and early 1990's, the Government of Sri Lanka (GSL) has continued to undertake steps aimed at strengthening the role of market forces and the private sector in the economy through reduced price controls and subsidies, devaluation of the rupee and rationalized exchange rate policy, liberalization of imports, promotion of exports and foreign investment, and privatization.

Sri Lanka's private sector has, by and large, responded to this improved environment for "doing business" by increasing investment in productive enterprises, particularly labor intensive industries. In addition, Sri Lanka has begun to attract increasing amounts of foreign direct and indirect investment. Still, Sri Lanka's private sector continues to face a number of challenges: a small domestic market; the need to become more internationally competitive in export markets; difficulty in attracting and mobilizing long-term investment capital for business expansion; and, the continuing negative impact of the war in the north and east.

4.0 Background on the USAID/Sri Lanka Private Sector Development Program

Coinciding with the GSL's moves to strengthen the role of the private sector in the economy in the 1980's was a recognition by USAID of the development impact of providing assistance to Sri Lanka's emerging private sector. In the mid-1980's, USAID made the strengthening of the private sector a cornerstone of its development strategy for Sri Lanka. Taking advantage of the improved overall policy environment for private enterprise in Sri Lanka, the Mission thus began to develop its first "true" private sector projects.

The Private Enterprise Promotion (PEP) Project, started in 1983, was the Mission's first dedicated private sector project. Under PEP, USAID financed a number of activities aimed at stimulating the formation and growth of private enterprises. Major components under this project included: (1) establishment of a private Sri Lanka Business Development Center (SLBDC) which became the implementing agency for the other four components; (2) investor services and promotion; (3) economic and business policy formulation; (4) management development; and, (5) entrepreneur development. Evaluations of the project, however, concluded that it fell considerably short of expectations and it was not extended beyond its scheduled completion in 1988.

In 1984, the Mission initiated collaboration with the International Executive Service Corps (IESC) through IESC's Volunteer Executive (VE) Program. This program still receives support from USAID. Under the VE Program, retired volunteer businesspersons from the U.S. are placed with local private firms for periods of up to three months. The VEs provide technical expertise in such areas as production, packaging, marketing, management and strategic planning. The VE program in Sri Lanka has been very active, with over 140 VE assignments now completed.

Concurrent with the completion of PEP in 1988, the Mission identified the persistent imbalance between the Government and the private sector as a serious constraint to private sector development in Sri Lanka. Public ownership of private enterprises, hesitant promotion of competition, and a mix of over-regulation coupled with inadequate enforcement were seen as undermining the economic policy reforms initiated by the Government. Since private sector development was recognized to proceed in many dimensions, the major activities of a new project, the Private Sector

Policy Support Project (PSPS), were formulated to address identified weaknesses in the existing economic structure and "lessons learned" through PEP, including the need to: (1) strengthen the contribution of private sector chambers and associations to the formulation, appraisal and implementation of market-oriented economic policies; (2) assist the GSL in privatizing state-owned enterprises (SOEs); and, (3) develop the capacity of Sri Lanka's financial markets, particularly the capital market and emerging financial institutions such as venture capital companies and merchant (investment) banks. An interim evaluation of this ongoing project was completed in 1991 and concluded that the project had, for the most part, been very successful. It is anticipated that the Mission will contract out separately for a further review of the impact of the project's privatization component.

The Mahaweli Enterprise Development (MED) Project, started in 1989, was designed to provide comprehensive support for private enterprise in the Mahaweli region. Major activities of this ongoing project include support for: (1) the development of sound policies to permit private sector growth; (2) management and training assistance for existing and aspiring entrepreneurs; (3) investment promotion aimed at potential medium- and large-scale enterprises. Because of its close linkage with agricultural and rural development and MED's "better fit" with the Mission's agricultural portfolio, the project was transferred to the Office of Agriculture and Natural Resources (ANR) in late 1992. A mid-term evaluation of the project, completed in early 1993, concluded that the project had been successful in meeting targets for micro and small enterprises but less successful in promoting medium- and large-scale investment and agro-enterprises, largely because of land tenure and infrastructure issues.

The Technology Initiative for the Private Sector (TIPS) Project was started in 1991, with the purpose of increasing the international competitiveness of and employment in Sri Lankan private industry. The project identified insufficient demand for new/improved technologies by local firms as a major constraint to their competitiveness. Key project components include: (1) undertaking promotional measures to generate demand for new/improved technology by local firms; (2) providing technology grants on a cost sharing basis to local firms seeking new/improved technologies; and, (3) providing local firms low cost, rapid and reliable access to information on internationally available technology and international market conditions. Under TIPS the Mission is also providing support to the GSL counterpart ministry, the Ministry for Industries, Science and Technology (MIST), in carrying out a number of policy studies related to the government's industrialization and trade strategies. The Mission's assessment of the project thus far is that it is progressing well. An independent interim evaluation of the project is scheduled for completion during August 1993.

The Agro-Enterprises (AGENT) Project, which was started by the ANR Office in 1992, is focused on developing private agro-enterprises in Sri Lanka. Through the provision of technical assistance in such areas as agro-enterprise business planning, production, processing and marketing, coupled with a grants program, the project aims to assist Sri Lankan agro-enterprises to develop new agro-products and export markets.

The Promotion of Private Infrastructure (PPI) Project was started by the Mission's Projects Office in 1992. The purpose of the project is to assist the Government of Sri Lanka to develop a market for private financing and management of infrastructure projects in Sri Lanka. This is to be accomplished by utilizing Build-Own-Operate (BOO) and Build-Operate-Transfer (BOT) approaches in such sectors as telecommunications, power, transport, water and wastewater, and solid waste.

In addition to the above bilateral projects, in 1988 the Mission initiated a local currency private sector lending program under the PL 480 Program (food aid), the 'Section 108' Program. Under the program, local currency was made available to private financial intermediaries to finance private productive enterprises at market rates. Five local financial institutions were included in this program. While the program has not been subject to a formal evaluation, an informal assessment of the loan program implemented by one of the participating financial institutions was completed in 1991. The assessment concluded that the program had helped this particular institution begin a small loans scheme that it would not otherwise have begun.

Finally, the Mission has cooperated with the A.I.D./Washington Private Enterprise Bureau (PRE) Loan Portfolio Guarantee (LPG) Program since 1988. Under the LPG Program, the U.S. Government provides private financial institutions with a guarantee of 50% for a loan portfolio for small and medium enterprises. Six local financial institutions have participated in this program. The program is currently in a wind-down phase because of a directive from the U.S. Congress to terminate the program worldwide.

USAID/Sri Lanka's Office of Private Sector Development's (PSD) current project portfolio: the amended PSPS Project, which was started in late-1992, and TIPS, which was discussed above. In addition, PSD continues to provide limited management oversight for the PL 480 - Section 108 and LPG programs.

Under the PSPS amendment, the project continues providing assistance aimed at broadening and deepening financial markets in Sri Lanka, focusing on the further development of debt and equity markets and the necessary regulatory and institutional framework. The private sector chambers/associations and privatization components will conclude in July 1993.

Finally, PSD continues to serve as a technical resource for other offices in the Mission on issues related to private sector development. This has become all the more important in light of the private sector approaches which are now being utilized in sectoral projects outside of PSD, such as those in infrastructure (PPI) and agriculture (AGENT).

5.0 Statement of Work

USAID/Sri Lanka's private sector development efforts have been among the most active and innovative in the region. These efforts have included both private sector policy elements and substantial direct support to private firms. The Mission's private sector activities are now at a programmatic crossroads. The "first generation" of private sector projects is coming to a close, for example, business chambers/associations assistance and the privatization program. New and follow-on activities are either underway or planned, and other Mission offices outside of the Office of Private Sector Development (PSD) are proceeding with private sector approaches in their sectoral projects. In addition, A.I.D.'s strategic objectives are changing, as well as the development assistance needs of Sri Lanka. Hence an outside, independent assessment of where USAID has been with private sector development in the country and where it might go in the future is due.

As stated in Section 2.0, the purpose of this study is to provide USAID/Sri Lanka with both a summary and assessment of its private sector assistance program, and to make recommendations for the Mission's future private sector assistance program. As part of the assessment, the study will include a review and analysis of the Mission's private sector portfolio, with a focus on the Office of Private Sector Development (PSD) portfolio, and will identify major strengths and weaknesses in the program, as well as accomplishments. In addition, within the context in which future projects in Sri Lanka will operate, the study will identify and recommend new opportunities and/or modes for USAID assistance aimed at promoting private sector growth.

5.1 Issues and Questions for Study

The study will be designed and implemented in a manner that will provide *empirical findings (i.e., evidence), conclusions (i.e., interpretations and judgements about findings) and recommendations related to the Mission's private sector activities*, while answering the questions listed below:

a. Impact: What has been the development impact (e.g., economic growth, employment, incomes, trade and investment, enterprise growth) of USAID/Sri Lanka's private sector activities? What are the major accomplishments of these activities? What are their major strengths and weaknesses? To what extent have private sector activities contributed to USAID/Sri Lanka's overall development strategy as outlined in its *Strategic Framework FY 1992-1996* and the *Program Performance Information System for Strategic Management (PRISM)*?

b. Relevance and Performance: How relevant have USAID/Sri Lanka's private sector activities been to Sri Lanka's development needs? In light of current economic conditions in Sri Lanka and the GSL's stated development objectives, are USAID/Sri Lanka's current private sector activities still relevant? Have USAID/Sri Lanka's various approaches to carrying out private sector activities been appropriate? Has there been a proper balance between direct support to the private sector and support for public sector institutions involved with private sector development? To what extent have the Mission's past and ongoing private sector projects (Private Enterprise Promotion (PEP), Mahaweli Enterprise Development (MED), Private Sector Policy Support Project (PSPS), Technology Initiative for the Private Sector (TIPS), Agro-Enterprises (AGENT), and The Promotion of Private Infrastructure (PPI) Project) been effective and successful in increasing private sector growth?

c. Relationship to Other Private Sector Development Programs/Projects: What is the extent of the relationship between USAID/Sri Lanka's private sector activities and programs/projects supported by other donors such as the World Bank, Asian Development Bank and other bilateral donors; are there opportunities for better coordination/cooperation? What is the relationship between USAID/Sri Lanka's private sector activities and GSL ministries and organizations involved with private sector development? Should there be closer cooperation with these ministries and/or organizations? What is the relationship between the USAID/Sri Lanka's private sector activities implemented by the Office of Private Sector Development (PSD) and other ongoing programs/projects within the Mission (e.g., Agro-Enterprises [AgEnt], Promotion of Private Infrastructure [PPI], and the Housing Program]? Are PSD projects being implemented in a fashion which is complementary to these other projects? Is there any evidence to suggest duplication in programming or "opportunities lost" in terms of better coordination among the Mission's various private sector oriented projects?

d. <u>"Lessons Learned" and Options for Future Programming</u>: What are the principle "lessons learned" with respect to USAID/Sri Lanka's private sector activities to date? What mechanisms appear to be most effective (e.g., policy reform, business promotion, grants, finance, technical assistance, etc.)? Within the context in which future private sector projects in Sri Lanka will operate, and based on USAID's comparative advantage, A.I.D./Washington's programmatic mandate, and available resources, what are the options and recommended modes/mechanisms for future USAID assistance aimed at promoting private sector growth? Should there be a focus on private sector policy/regulations and improving the private sector "enabling environment" (for example, financial markets or business services and education) or direct assistance to private sector firms/organizations? What about the role of microenterprise development in future private sector activities?

5.2 Statement of Specific Evaluation Tasks

In addressing the questions and issues listed in Section 5.1, the contractor will perform the following tasks:

Task 1: Carry out Preparatory Work in U.S.

Before departure for Sri Lanka, the contractor shall become familiar with the USAID/Sri Lanka private sector activities and issues by reviewing the following documents to be provided by USAID:

a. "A.I.D.'s Private Assistance Program at a Crossroads, U.S. General Accounting Office", December 1992.
b. USAID/Sri Lanka Strategic Framework FY 1992-1996
c. USAID/Sri Lanka Program Performance Information System for Strategic Management (PRISM)
d. USAID/Sri Lanka Policy Agenda Matrix
e. Selected Project Papers (PPs)
f. Selected Project Evaluation Reports
g. Project Implementation Reviews (PIRs)
h. World Bank Policy Framework Paper (PFP) for Sri Lanka (1992-95)
i. Sri Lanka: Country Economic Update FY93, World Bank.

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The contractor shall meet with A.I.D./W staff in the Private Enterprise (PRE) Bureau and the Asia Bureau to discuss the status of the Agency's private sector programs and future programmatic directions. The contractor shall also visit with staff in the A.I.D. Center for Development Information and Evaluation (CDIE) to review appropriate documents related to recent assessments of A.I.D.'s private sector programs, both at the Mission level and worldwide. Based on discussions with A.I.D. staff and a review of appropriate documents, the contractor will summarize what types of private sector programs appear to have been successful in the past, and what types of programs will be acceptable, from A.I.D./Washington's perspective, in the future.

In addition, the contractor will visit with World Bank staff in Washington, D.C. who are responsible for monitoring and implementing the Bank's Sri Lanka program (Country Department III, South Asia Region).

Before departure for Sri Lanka, the contractor will finalize a workplan for the field work in Sri Lanka. This will include the preparation of evaluation instruments and criteria, interview forms, etc. The contractor will also initiate contacts with local-hire staff (or the local firm) in Sri Lanka so that collection of information may begin in advance of the contractor's U.S. staff arrival.

In Sri Lanka, the contractor will carry out the following tasks:

<u>Task 2: Assess Private Sector Activities' Impact and Relevance</u> The contractor will review and assess the overall impact (e.g., economic growth, employment, incomes, trade and investment, enterprise growth) of the Mission's past and ongoing private sector activities. Within the economic context of Sri Lanka, the contractor will assess the relevance of USAID/Sri Lanka's private sector activities. This assessment will include information derived from a thorough review of various USAID project documents, reports and available project evaluations.

<u>Task 3: Analyze the Successes and Failures of Private Sector Activities</u> The contractor will assess and summarize the effectiveness of the Mission's private sector activities in terms of the mode/mechanism of assistance and relative success in achieving stated objectives. Based on this assessment, the contractor will identify the major successes and failures of the activities and determine which modes/mechanisms of assistance have been most successful. The contractor will also determine which sectors have been most receptive to change. In addition, the contractor will assess the inter-relationships among the Mission's various private sector activities and identify any actions needed to be taken to increase effectiveness and/or avoid duplication.

<u>Task 4: Assess the Relationship of the Mission's Private Sector Activities with Other Donor and GSL Programs</u> The contractor will assess the relationship between the Mission's private sector activities and other donor and Government of Sri Lanka (GSL) programs. This will include a comparison of program approaches and emphasis. The contractor will identify any opportunities for closer cooperation with other donors and the GSL.

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Task 5: Identify "Lessons Learned" and Options for Future Programming: Based on the above tasks, the contractor will identify principle "lessons learned" with respect to USAID/Sri Lanka's private sector activities. In light of the future context (Sri Lanka policy environment, level of development of Sri Lanka's emerging private sector, other donor programs, USAID and A.I.D. strategic objectives, and resources) in which private sector projects will operate, the contractor will also present a prioritized list of options and recommended modes/mechanisms for USAID private sector development assistance over the next five years.

Task 6: Briefings and Preparation of Draft and Final Reports
The contractor will present a number of briefings and prepare draft and final reports.

5.3 Study Methods and Procedures

The contractor will utilize the following methods and procedures:

5.3.1 Research and Review of Relevant Documents and Literature

Research will include, but not be limited to, a review of the following:

a. USAID documentation, including Project Papers, periodic reports and project files;
b. USAID Contractor and Grantee workplans and reports;
c. Project Evaluation Reports;
d. Other donor reports (World Bank, Asian Development Bank, and bilateral donors);
e. Press and other independent reports on the development of Sri Lanka's private sector.

USAID will cooperate, to the maximum extent possible, with the contractor in providing access to appropriate, non-sensitive documents.

5.3.2 Interviews

The contractor shall conduct interviews with individuals from the following groups involved directly with the USAID/Sri Lanka private sector activities or indirectly with the development of Sri Lanka's private sector:

a. USAID/Sri Lanka staff;
b. USAID/Sri Lanka contractors and grantees;
c. GSL counterpart agencies' staff;
d. A broad cross section of representatives of private sector firms who have participated in and/or benefitted from USAID private sector projects;
e. Independent observers (businesspersons, financial sector representatives, consultants, accountants, academics) of private sector developments in Sri Lanka;
f. Other donor representatives, including the World Bank, the IMF, the Asian Development Bank, and bilateral donors.

USAID will assist the evaluation team in setting up appointments for the above interviews.

5.4 Contractor's Team Composition and Level of Effort

The evaluation will be conducted by the contractor's study team, consisting of a Team Leader/Senior Strategic Planning Specialist (Senior Trade and Investment Promotion Specialist), a Senior Business Development Specialist, and a local-hire Research Specialist (Staff Business Development Specialist). The contractor will prepare a report which addresses the issues and specific questions identified in Section 5.1. The contractor's study team will consist of the following professionals:

Team Leader - Senior Strategic Planning Specialist (Senior Trade and Investment Promotion Specialist): The team leader will be responsible for planning, coordinating and executing the overall study. As team leader, this person will manage the study and ensure that reports are completed as required. The team leader will provide technical expertise related to determining the impact, relevance, and effectiveness of the Mission's private sector activities. As such, the team leader should have extensive experience in carrying out private sector program assessments and evaluations, preferably for A.I.D. In addition, this person should have demonstrated experience in carrying out strategic planning exercises, with an exceptional ability to "map out" future directions and strategies for public and/or private sector organizations involved with private sector development in developing countries. The team leader should hold a minimum of a MS or equivalent degree in management or economics (or a related field) and have a minimum of ten years of relevant professional work experience. Previous experience in Sri Lanka or similar countries is highly desirable.

Senior Business Development Specialist: This person will provide technical expertise in a very broad range of technical specialties including private enterprise development (business planning, management and marketing), business organizations' development (chambers and associations), promotion of trade and investment, financial markets development, and privatization. This person will preferably have both direct operating business experience and experience in the development and implementation of private sector assistance projects/programs in developing countries. This specialist should have a university degree in a field related to business management or an equivalent degree and a minimum of ten years relevant professional work experience. Previous experience in Sri Lanka or similar countries is highly desirable.

Research Specialist (Staff Business Development Specialist): This local-hire specialist will be responsible for gathering data regarding USAID/Sri Lanka's private sector activities and carrying out appropriate research. Representative tasks will include collating and presenting data on projects, identifying and obtaining useful research documents, and ensuring that all relevant sources of information related to the private sector program are reviewed. This person should be a resident of Sri Lanka and should hold a minimum of a BS degree or equivalent in management, economics or accounting. An advanced degree is highly desirable. A strong background in issues related to private sector development is required, with a minimum of five years experience in the field. Previous experience in similar sectoral assignments is also highly desirable.

In addition to the three-member team described above, all clerical and administrative staff support will be supplied by the contractor.

It is estimated that the three-person team will provide a total level of effort of 116? person-days. *A six-day work week is authorized in Sri Lanka.*

Estimated Level of Effort in U.S.: 20 person days, which includes preparatory work and preparation of final report.

Estimated Level of Effort in Sri Lanka: 100 person days, which includes field work and preparation of draft report.

The level of effort may be adjusted, but only with the prior written approval of USAID.

The estimated period of performance for the contract is August 1 - October 15, 1993 (approximately 75 days).

5.5 Deliverables and Reporting Requirements

A notional schedule for the evaluation and deliverables is shown below:

No. of Days from Effective Date of Work Initiation	Work to Be Carried Out	Deliverables
On or before Day 7	Team begins preparatory work in the U.S.; Draft Workplan and Report Outline is prepared; Team travels to Sri Lanka; Set up initial appointments in Sri Lanka.	Draft Workplan and Draft Report Outline
On or before Day 14	Team begins work in Sri Lanka; Entrance briefing with USAID; USAID reviews Workplan and Report Outline.	Approved Workplan and Report Outline.
On or before Day 21	Interviews and research; Progress briefing for USAID.	Briefing at USAID.
On or before Day 28	Interviews and research; Progress briefing for USAID.	Briefing at USAID and Preliminary Draft Final Report
On or before Day 35	Complete interviews and research; Prepare draft final report and submit to USAID.	Draft Final Report.

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On or before Day 42	USAID comments and feedback on draft final report provided to team within three working days after receipt; Team presents findings in exit briefing for USAID; Revised draft final report presented to USAID, along with "Word Perfect" format diskette, before Team departs for U.S.	Exit briefing, revised Draft Final Report and diskette.
On or before Day 75	Team returns to U.S. to prepare final report; USAID to provide any further comments on revised draft final report; 25 copies of the final report are submitted to USAID, along with "Word Perfect" format diskette.	Final Report and diskette.

The contractor's team will prepare, in Sri Lanka, a draft final report which responds to the questions and tasks outlined in Sections 5.1 and 5.2. This draft report (5 copies) will be submitted to USAID not later than 35 days after initiating the evaluation. USAID will provide comments/feedback to the team within three working days after submission of the draft. A revised draft report (5 copies) will be provided to USAID before the departure of the team. USAID will provide the contractor any further comments/feedback on the revised draft report within ten working days after its submission. The contractor will provide a final report (25 bound copies) to USAID no later than 75 days after the effective date of the initiation of the evaluation.

In addition to the above written reports, the team will provide verbal progress briefings to USAID. A final exit briefing will also be given to USAID and other interested parties.

The final report must correspond to the following format:

1. Title Page, which will include the following disclaimer: "*This report represents the independent findings and recommendations of the evaluators. It does not necessarily represent the official views of the Agency for International Development.*"
2. Table of Contents
3. List of Acronyms
4. Executive Summary, which should be able to stand alone as a separate document. It will be limited to 3 pages (single-spaced).
5. Body of the Report (no more than 50 pages with any lengthy technical analyses or data included as appendices) which shall include a discussion of: (a) the study purpose, questions and tasks; (b) team composition and study methods (one page maximum); (c) the economic, political and social context for private sector development in Sri Lanka; (d) evidence/findings concerning the study questions and tasks; (e) conclusions drawn

Appendix B

LIST OF PERSONS INTERVIEWED

Abeysekera, Indra	Project Officer, Mahaweli Enterprise Developmend Project, Agricultural and Natural Resources Office, U.S.Aid/Sri Lanka
Alex, Gary	Acting Chief/Agricultural Project Officer, Agricultural and Natural Resources, U.S./AID/Sri Lanka
Amarasinghe, Patrick	President, Federation of Chambers of Commerce & Industry of Sri Lanka
Anders, Glen	Acting Deputy Director, U.S.AID/Sri Lanka
Anderson, Russell	Bureau for Private Enterprise, USAID/W
Anthony, C.N.S.N.	Accountant, Allied Stock Brokers, Ltd.
Attanayake, Dr. Abhaya	Managing Director, Sri Lanka Business Development Centre
Atton, M.S.C.	Information Officer/Assistant Secretary, Ceylon Chamber of Commerce
Bacha, Melodie	Bureau for Private Enterprise, USAID/W
Balendra, Ken	Chairman, John Keels Holdings
Barut, Jean	Coordinator, Asia Group, United Nations Department of Technical Cooperation and Development
Bentjerodt, Roberto	Resident Representative, World Bank
Bradley, Theresa	World Bank
Brown, Dick	Mission Director, U.S.AID/Sri Lanka
Claborne, Stephen	Assistant Representative, The Asia Foundation
Coovay, Anil	Director, Development and Finance, Federation of Chambers of Commerce & Industry of Sri Lanka

de Silva, Dinesha	Project Officer, Office of Private Sector, U.S.AID/Sri Lanka
Dempsey, J.	Asia Bureau, South Asia, USAID/W
Devasurendra, Ajith	Managing Director, MB Financial Services (Pvt), Ltd.
Dewanarayana, Eriq	Business Editor/Deputy Editor, The Island Newspaper (Upali Newspapers Ltd.)
Dewez, Nicole	Programme Officer, United Nations Industrial Development Organization
England, Robert	Resident Representative, Sri Lanka, United Nations Development Program
Estes, Eric	Asia Division, OPIC
Evans, Judith	Bureau for Private Enterprise, USAID/W
Farro, Dale	Bureau for Private Enterprise, USAID/W
Fernando, Ranjit	Director/General Manager, National Development Bank
Fernando, Lyn	Chairman, Federation of Exporters Associations of Sri Lanka
Fernando, Mark	Justice, Sri Lanka Supreme Court
Finucane, James R.	Chief of Party, Mahaweli Enterprise Development Project, International Science and Technology Institute, Inc.
Freeman, Roger	Economic/Commercial Officer, U.S. Embassy/Sri Lanka
Fuller, Richard	Representative, The Asia Foundation, Colombo
Fuller, William	President, The Asia Foundation
Garcia, Bernabe	Deputy Resident Representative, Sri Lanka, United Nations Development Program
Greenberg, Richard	Asia Division, Overseas Private Investment Corporation
Grubb, Dennis W.	Director, Corporate Finance, Merchant Bank of Sri Lanka, Ltd.

Gunasinghe, Channa	Vice Chairman, Ceylon Chamber of Commerce
Gunawardana, A.M.T.	Assistant Resident Representative, Sri Lanka, United Nations Development Program
Hadley, Steve	Chief, Private Sector Development Office, USAID/Sri Lanka
Hensley, Matt	USAID/Promotion of Private Infrastructure Project, Center for Financial and Engineering for Development
Weerasekera, Nissanka	Project Officer, Office of Private Sector, U.S.AID/Sri Lanka
Holt, David	Evaluator of Technology Initiative for the Private Sector Project, Checchi & Co.
Hooper, Timothy	Investment Banking Specialist, Agricultural Development Services (Singapore) Pte. Ltd., Asian Development Bank Consultant, Tea Plantation Privatization Project
Hull, Galen	Senior Program Officer, Southeast Consortium for Economic Development
Iida, J.	Japan International Cooperation Agency
Isaacs, Seth	Acting Chief of Party, U.S.AID Private Sector Policy Support Project
Jansz, Royle	Director, Lanka Milk Foods (CWE) Ltd.; Director, Distilleries Company of Sri Lanka Ltd.
Jayanetti, Dr. Sanath	National Expert, UNDP/UNIDO, Ministry of Industries, Science and Technology
Jayaratne, Lionel	Project Officer, Agro Enterprise Support Project, U.S.AID/Sri Lanka
Jayasuriya, Chullante	Secretary General, Ceylon Chamber of Commerce
Jayawardena, A.S.	Senior Deputy Governor, Central Bank of Sri Lanka
Jayawardena, Stanley	Chairman, Securities and Exchange Commission; Member, Central Bank Monetary Board

Jayasinghe, Tissa	Chief, Commission of Public Enterprise Division, Ministry of Finance
Jayawardena, N.U.	Former Governor, Central Bank
Jayawardena, L.S.	Chairman, Securities & Exchange Commission; Member Monetary Board of Sri Lanka
Jeffers, William	Chief, Office of Projects, U.S.AID/Sri Lanka
Kanag-Isvaran, K.	Private Attorney, Commercial Law Specialist
Karasawa, Masayaki	Representative, The Overseas Economic Cooperation Fund, Japan
Kavindrarajah, G.W.	Japan International Cooperation Agency
Kayaku, Hiroshi	Chief Representative, The Overseas Cooperaton Fund, Japan
Kertzman, Debra	Regulation Specialist, Financial Markets Project, International Science and Technology Institute, Inc.
Kotelawala, Lalith	Chairman, Ceylinco Group
Kuhn, Louie	Chief, Projects Officer, U.S.AID/Sri Lanka
Kularatna, Nihal	Arthur C. Clarke Center
Kulatilake, Vajira	Project Officer, Private Sector Policy Support/Financial Market Project, Private Sector Development Office, U.S.AID/Sri Lanka
Kumaraswany, Mohan	Lecturer, University of Hong Kong
Laduwahetty, Walter	Principal, Sri Lanka Law College
Lierke, Terry	Deputy Mission Director, U.S.AID/Sri Lanka
Lindborg, Jon D.	Private Enterprise Officer, Office of Private Sector U.S.AID/Sri Lanka
Liyanage, Mr.	Ministry of Finance

Lynch, Paul	Chief of Party, Promotion of Private Infrastructure Project, Secretariat for Infrastructure Development & Investment, Ministry of Policy and Planning (Center for Financial Engineering and Development contract employee)
Mack, Michael L.	Chairman and Managing Director, Aitken Spence & Co. Ltd.
Mahendra, Arjuna	National Development Bank
Malnick, Peter	Asia Bureau, South Asia, USAID/W
McDougall, William	Director, Strategic Planning, The Asia Foundation
Meegoda, D. Justin	President and Chief Executive Officer, Vanik Merchant Bank
Mel, Lal de	Chairman, Ceylon National Chamber of Industries
Mendis, Dushyantha	Secretary General, Federation of Chambers of Commerce & Industry of Sri Lanka
Mendis, Niranjan	Director, Delmege Forsyth & Co. Ltd.
Mirchandani, Prakash R.	Joint Managing Director, Favourite Garments Ltd. and Texwood Industries Ltd.
Moonesinghe, Avanti	Deputy Secretary General, Federation of Chambers of Commerce & Industry of Sri Lanka
Mowbray, Philip G.	Crop Production Advisor/Acting Chief of Party, Agro Enterprise Support Project, Oregon State University
Nanayakkara, Gunapala	Director, Postgraduate Institute of Management, University of Sri Jayewardenepura
Nanayakkara, Manohan	Chief Executive Officer, CF Venture Fund Ltd. (formerly with Office of Private Sector/ U.S.AID/Sri Lanka
Nugawela, Derrick	Advisor, Kandy Chamber of Commerce; Former Deputy Director, Board of Investment

Olsen, Lorne G.	Chief Executive Officer, U.S.AID/International Executive Service Corps, Technology Initiative for the Private Sector
Palihakkara, Nande	Director of Finance, Richard Pieris Exports Ltd.
Parker, Steve	Economist, Center for Asian and Pacific Affairs, The Asia Foundation
Parton, Bennett	Resident Investment Specialist, Promotion of Private Infrastructure Project, Secretariat for Infrastructure Development & Investment, Ministry of Policy and Planning (Center for Financial Engineering and Development contract employee)
Paulraj, Israel	Director, SKC Management Services, Ltd., Board Member, Federation of Exporters Associations of Sri Lanka
Perera, J. Godwin	Director of Corporate Planning, Stassen Foods (Pvt) Ltd.; Director, Corporate Planning, Lanka Milk Foods Ltd.
Perera, A.D.J.	Chairman, Fair Trading Commission
Pierce, Thomas A.	Nepal/Sri Lanka Desk Officer, U.S.AID/Washington D.C.
Pieris, PI	Deputy Chairman, Richard Pieris & Co. Ltd.
Prelis, Moksevu	General Manager/Director, Development Finance Corporation of the Sri Lanka
Prywes, Menahem	Sri Lanka Country Economist, World Bank
Rangala, N.C.C.	Director, Research and Consultancy, Federation of Chambers Commerce and Industry of Sri Lanka
Rangala, Nihal	Director, Consultancy and Research, Federation of Chambers of Commerce & Industry of Sri Lanka

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Robertson, Jame W.	Senior Associate, Centre for International Economics; UNIDO Economic Advisor to the Ministry of Industries, Science and Technology
Rodrigo, W.D.	Lecturer, Sri Lanka Law College
Salacues, Jesweld	Dean, Fletcher School of Law and Diplomacy, Financial Markets Project Securities Legal Framework Analyst
Selvanathan, Mano	Director, Sri Krishna Corporation
Simmons, John	Sri Lanka Desk Officer, International Trade Administration, U.S. Department of Commerce
Stallard, Janice	Center for Documentation Information and Evaluation, USAID
Steinberg, David	Professor, Georgetown Unversity, Consultant to USAID/Sri Lanka
Tengg, Tom	Project Officer, Financial Markets Project, Private Sector Development Office, U.S.AID/Sri Lanka
Thassim, Azmi	President, Hambantota Chamber of Commerce
Thenuwara, Percy	Additional Director of Promotion, Board of Investment
Trachtman, Joel P.	Associate Professor of International Law, The Fletcher School of Law and Diplomacy, Financial Projects Securities Legal Framework Analyst
Ware, Theresa	Asia Bureau, South Asia, USAID/W
Warner, Bradford	Vice President, Private Enterprise and Economics, International Science and Technology Institute; Consultant; Former Chief of Party PSPS
Wickremarachchi, Leel	Project Management Specialist (Infrastructure), Promotion of Private Infrastructure Project, U.S.AID/Sri Lanka
Wickremesinghe, S.K.	Chairman, Commercial Bank and Chemical Industries Corporation

Wijenaike, Chandra	Chairman, Central Finance Co., Ltd.
Wijenaike, Eranjith	Director, Central Finance Co. Ltd.
Wijesekera, Saliya	Manager Research & Financial Services, Allied Stock Brokers, Ltd.
Wijesekera, D.C.	Director, Associated Management Services Ltd., Asian Development Bank Consultant, Tea Plantation Privatization Project
Wikramanayake, Aritha R.	Director General, Securities and Exchange Commission of Sri Lanka

Appendix C

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Appendix D:

Statistical Tables

Table 1: Gross National Product at Constant (1982) Factor Cost Prices, 1980 - 92

	1980	1981	1982	1983	1984	1985	1986	1987	1983	1989	1990*	1991*	1992*
:, Forestry Hunting and Fishing	22745	24325	24964	26212	26113	28366	29106	27409	27984	27666	30011	30570	30112
ıre	18993	20251	20771	21868	22300	24504	25037	23003	23762	23311	25729	25941	25338
	2463	2709	2418	2309	2681	2759	2723	2750	2926	2668	3004	3100	2303
r	821	766	770	865	878	851	856	765	770	697	718	655	662
ut	2631	2933	3263	2992	2513	3828	3935	2967	2501	3210	3261	2827	3081
	5475	5674	5484	6318	6166	6783	6613	5423	6312	5258	6378	6002	5882
	7663	8277	8836	9384	10062	10283	10910	11098	11253	11478	12368	13357	13410
	1587	1649	1710	1816	1889	1923	1958	2215	1943	1985	2030	2107	2149
	2094	2412	2483	2528	1924	1939	2111	2191	2279	2370	2252	2522	2625
ıarrying	2063	2151	2238	2413	2449	2486	2615	3112	3392	3576	3901	3511	3300
	12340	12980	13601	13710	15390	16193	17558	18748	19622	20488	22427	23949	26106
ıg**	2793	3005	2846	2715	2983	3222	3225	3340	3273	3257	3530	3332	2959
	7746	8059	8777	8953	10296	10811	12108	13113	14030	15500	17085	18708	21140
	668	702	773	805	837	862	896	910	918	935	968	1065	1150
	1054	1098	1205	1237	1274	1298	1329	1385	1401	796	844	844	857
tion	8375	8124	7959	8039	8030	8070	8191	8338	8463	8514	8761	9033	9665
y, Gas, Water and Sanitary Services	886	992	1089	1161	1239	1313	1406	1448	1499	1526	1681	1800	1897
Storage and Communications	9430	10040	10666	11281	12437	12959	13377	13538	13619	13883	14410	15534	16466
e and Retail Trade	17732	18584	19694	20738	22029	22925	23821	24496	25164	25588	26497	28556	30215
	8460	8632	8812	8981	9161	9345	9468	9628	9810	9614	9422	10826	11974
	1802	1838	2018	1964	2194	2310	2462	2490	2579	2752	3060	3210	3576
	7781	8326	8864	9793	10674	11270	11891	12378	12775	13222	14015	14520	14665
surance and Real Estate	2889	3320	3715	4130	4526	4975	5174	5490	5819	6168	6556	6831	7241
of Dwellings	2920	3080	3250	3315	3381	3432	3497	3550	3603	3650	3705	3761	3795
ninistration and Defence	2523	2623	2899	3786	4165	4432	5274	5435	5462	6140	6355	6304	6449
ı.e.s.)	3982	4302	4604	4590	4636	4419	4242	4358	4423	4530	4940	5355	5714
ıestic Product	85188	90110	94679	99375	104395	109570	114261	115922	119050	121729	129244	135204	140960
Income From Abroad	-460	-1893	-1959	-2936	-2996	-2829	-2696	-2615	-2836	-2855	-2818	-2990	-2863
ɔnal Product	84896	88213	92720	96439	101399	106741	111565	113307	116214	118874	126426	132214	138097

Source : Central Bank Annual Report (various issues)

Table 2 : Value of Industrial Production, 1980 - 92

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991(a)	1992(b)
Category													
Food,beverages and tobacco	3,899	4,496	5,246	6,998	8,623	10,497	12,129	12,962	14,675	18,458	21,955	30,003	34,157
Textile,wearing apparel and leather products	1,923	3,040	3,863	5,136	7,565	9,505	12,088	15,428	18,166	22,073	27,930	33,854	48,929
Wood and wood products(including furniture)	289	315	361	522	640	705	632	677	640	667	721	802	1,005
Paper and paper products	476	626	725	901	907	1,187	1,289	1,372	1,492	1,456	1,880	2,214	2,586
Chemicals,petroleum,coal,rubber and plastic products	9,416	12,015	13,099	11,888	14,328	13,104	11,088	13,477	13,681	12,041	21,215	20,140	21,217
Non_metalic mineral products (except petroleum and coal)	1,156	1,250	1,370	1,468	1,829	1,854	2,053	2,156	2,267	6,007	7,554	8,181	9,892
Basic metal products	478	428	262	302	199	123	281	307	487	792	1,006	1,264	1,417
Fabricated metal products,machinery and transport equipment	620	782	904	1,129	1,456	1,592	1,757	2,006	2,477	3,182	4,199	5,093	5,948
Manufactured products n.e.s.	54	58	74	90	106	125	136	155	178	231	296	2,373	2,658
Total	18,311	23,010	25,904	28,434	35,653	38,692	41,453	48,540	54,063	64,907	86,756	103,924	127,809

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Notes:

(a) Revised

(*): Provisional

Table 3 : Capacity Utilization In Industry , 1980 - 92

(Percentage Utilization of Capacity)	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Category													
Food,beverages and others	70	66	77	73	75	82	86	87	85	88	89	90	91
Textile,wearing apparel and leather Products (b)	70	87	94	98	99	96	98	99	97	98	98	98	90
Wood and wood products (including Furniture)	89	81	92	95	93	86	85	89	85	82	78	70	80
Paper and paper products	68	75	70	71	76	86	88	87	87	85	98	90	94
Chemicals,petroleum,coal,rubber and Plastic Products	79	76	77	83	68	61	63	68	67	64	72	63	60
Non-metalic mineral products (except Petroleum and Coal)	82	83	85	77	75	70	69	75	71	70	76	78	84
Basic metal products	62	53	33	25	17	5	29	32	38	37	40	42	45
Fabricated metal products,machinery and Transport Equipment	58	68	83	81	84	89	84	82	83	88	92	92	90
Manufactured products n.e.s.	70	69	73	81	87	94	96	96	93	95	95	95	93
Average	73	74	76	74	75	74	78	79	78	79	81	83	82

Sources:
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Notes:
(a): Provisional
(b): Excluding IPZs

Table 4 : Value Added in Industry, 1980 - 92

Category	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991(b)	1992(a)
Food,beverages and tobacco	1795	1891	2259	3276	4816	6166	6850	7194	8225	10168	12065	15070	17340
Textile,wearing apparel and leather products	382	513	488	759	1344	2594	3104	4409	4797	5746	7167	8542	13260
Wood and wood products (including furniture)	165	169	134	284	360	420	393	408	463	496	485	571	677
Paper and paper products	305	264	257	388	399	543	626	692	751	745	1019	1167	1397
Chemicals,petroleum,coal,rubber and plastic products	1249	2098	1927	1608	2147	1402	2705	3371	3827	3531	2428	3199	3416
Non_metallic mineral products (except petroleum and coal)	608	593	862	866	1072	1089	1117	1104	1308	1218	4742	4905	5918
Basic metal products	80	80	14	81	21	38	37	49	71	77	194	248	263
Fabricated metal products,machinery and transport equipment	297	406	790	684	946	1055	1116	1204	1518	1969	2746	3247	3629
Manufactured products n.e.s.	12	16	29	41	53	59	71	82	90	117	138	1092	1196
Total	4893	6030	6760	7987	11158	13366	16019	18513	21050	24067	30984	38041	47096

s:

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rovitional.

Table 5 : Trends in Principal Agricultural Crops, 1980 - 92

		1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991(a)	1992(b)
	Unit													
	Mn. Kgs.	191	210	188	179	208	214	211	213	227	207	233	241	179
tent Under Tea	Hectares	244714	244918	242141	230065	227875	231650	222905	221498	221683	221110	221758	221691	221836
es	'000 Mt. Tons	109.9	103.3	102.7	115.5	137.2	149.9	128.8	136.7	138	127.9	134.1	118.9	108.9
tare	Kgs.	922(c)	n.a.(c)	n.a.(c)	n.a.(c)	n.a.(c)	n.a.(c)	n.a.(c)	n.a.(c)	n.a.(c)	n.a.(c)	n.a.(c)	n.a.(c)	
ction	Rs./Kg.	18.71	18.79	22.68	26.37	34.00	35.00	n.a	n.a	43.98	49.70	57.65	58.41	82.43
	Rs./Kg.	17.73	17.71	22.52	36.96	46.45	35.39	30.28	38.06	41.59	52.16	65.72	57.13	60.51
	Rs./Kg.	33.41	35.14	35.03	52.52	77.20	60.62	44.52	52.97	55.95	66.91	91.78	84.03	81.50
Annual	Hectares	2156	2677	2004	1367	1145	1672	1618	1503	1592	1551	1586	1773	1417
Cumulative	Hectares	36217	38894	40898	42265	43410	45082	46700	48203	48795	51346	52932	54705	56122
	Mn. Kgs.	133	124	125	140	142	137.5	137.8	121.8	122.4	110.7	113.1	103.9	105
ider Rubber	Hectares	227335	205605	205690	205650	205589	204293	202771	201861	200248	199648	199048	198451	197856
	'000 Mt. Tons	22	16.8	16.5	18.6	23.5	24.2	26.3	23.4	25.1	22.6	22.2	13.7	12.7
ing	Hectares	185573	175855	170738	170482	168768	154436	149918	147484	145495	147285	146325	147048	148250
	Kgs.	718	705	729	818	840	894	919	826	841	752	773	706	708
n	Rs./Kg.	8.20(e)	8.92(e)	9.66(e)	9.9(e)	12.06(e)	13.67(e)	13.7(e)	13.95(e)	13.41(e)	15.06(e)	17.92(e)	19.11(e)	2050(e)
	Rs./Kg.	10.62	10.04	10.18	13.95	14.40	15.90	16.62	19.87	24.40	22.63	22.93	23.59	29.28
	Rs./Kg.	21.42	21.80	17.68	22.77	26.16	21.34	23.83	27.63	37.33	36.18	35.50	33.53	35.06
d Annual	Hectares	5434	6442	5866	4862	5530	6694	5911	5635	4167	6147	5202	5190	1722(l)
d Cumulative	Hectares	149948	155795	161661	166523	172053	178747	184658	190293	194460	200607	205809	211015	212721
ction	Mn. Nuts	2026	2258	2521	2312	1942	2958	3039	2291	1936	2484	2532	2184	2380
er Issues	'000 Mt. Tons	55.8	37.7	30.2	35.7	50	41	31.6	42.2	42	38.5	23.6	28.8	33.8
f Production	Rs./Nut	0.40	0.55	0.57	0.60	0.63	0.64	0.66	0.73	0.81	0.85	1.11	1.70	1.97
ge Export Price f.o.b. (d)														
	Rs./Nut	3.15	2.52	1.76	2.42	4.75	2.55	1.46	2.64	4.00	3.36	3.63	4.54	6.61
	Rs./Nut	1.48	1.80	1.60	2.42	4.07	2.18	1.83	3.29					

continued.......

Table 5 : Trends in Principal Agricultural Crops, 1980 - 92

d.........														
		1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991(a)	1992(b)
ı)	'000 Mt. Tons	2133	2230	2156	2484	2420	2661	2588	2128	2477	2063	2538	2389	2335
h)	'000 Hectares	845	877	845	824	990	882	895	781	868	727	857	817	803
	'000 Hectares	816	837	747	778	886	865	835	679	816	690	828	791	761
ed Varieties (h) ..	'000 Hectares	683	839	763	861	989	882	859	796	843	739	708	744	627
ues(h)	'000 Mt. Tons	145.1	165	141	160	171	153	197.4	151	204	156.2	143.6	179.3	193.3
re(h)	Kgs.	2927	3014	3260	3606	3076	3465	3500	3564	3413	3374	3453	3398	3447
Price	Rs./Bushel (f)	50.00	57.50	57.50	62.50	62.50	70.00	70.00	70.00	80.00	80.00	110.00	136.00(g	136.00(g)
ıder Guaranteed Price Sch	'000 Mt. Tons	211	128(j)	84	324	169	101	154	64	105	5	31(i)	44	7

Report, Central Bank of Sri Lanka, 1989 - 1992, Table 12.

ıuaı Report, Central Bank of Sri Lanka, 1984, 1986 - 1988, Table 10.

es:

Revised Figures

Provisinal

Data on Average Yield per Hectare are not Available since 1981.

Three major coconut kernel products only.

Weighted average cost of production of public sector estates, private sector estates and small holdings.

20.9 Kgs. of paddy = 1 Bushel of paddy.

: The GSP price was increased from Rs. 110.00 per bushel to Rs. 136.00 per bushel with effect from 11th March, 1991.

: On a cultivation year basis.

Includes paddy purchased by the PMB above the GSP from 23rd March, 1990 to 07th May, 1990.

This figure includes 29,000 Mt. tons of paddy purchased under the tender scheme.

: Excluding figures for the districts of Batticaloa, Ratnapura and Jaffna for Yala, 1978.

: Private sector Only.

Original Sources:

Sri Lanka Tea Board

Rubber Control Department

Coconut Development Authority

Department of Census and Statistice

Ministry of Agricultural Development and Research

Paddy Marketing Board

National Fertilizer Secretariat

Central Bank of Sri Lnaka.

Table 6 : Agricultural Output by Product, 1980 - 92

		1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991(a)	1992(b)
	Unit													
luction	Mn. Kgs.	191	210	188	179	208	214	211	213	227	207	233	241	179
:r														
luction	Mn. Kgs.	133	124	125	140	142	137.5	137.8	121.8	122.4	110.7	113.1	103.9	105
ut														
luction	Mn. Nuts	2026	2258	2521	2312	1942	2958	3039	2291	1936	2484	2532	2184	2380
duction(h)	'000 Mt. Tons	2133	2230	2156	2484	2420	2661	2588	2128	2477	2063	2538	2389	2335

Source : Central Bank of Sri Lanka , Annnual Reports(various issues)

Table 7 : Value Added In Manufacturing, 1980 - 92

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991(b)	1992(a)
Total (Rs. Million)	4893	6030	6760	7987	11158	13366	16019	18513	21050	24067	30984	38041	47096

ource : Central Bank of Sri Lanka , Annnual Reports(various issues)

Table 8 : Industrial Output, 1980 - 92

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991(a)	1992(b)
Total (Rs. Million)	18,311	23,010	25,904	28,434	35,653	38,692	41,453	48,540	54,063	64,907	86,756	103,924	127,809

Source : Central Bank of Sri Lanka , Annnual Reports(various issues)

Table 9 : Composition of Exports (Rs. Mn.), 1980 - 92

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Category													
1.Agricultural Exports	10873	12170	11656	14554	22575	19026	15764	17437.0	20104.0	22049	28886	26537	26385
--	6170	6444	6342	8295	15764	12003	9253	10654.0	12299.0	13664	19823	17867	14891
er	2590	2889	2323	2852	3301	2566	2622	2929.0	3706.0	3112	3080	2641	2962
nut	1234.3	1437.6	1468.5	1921.1	2118.3	3092.6	2389.2	2139.7	1538.6	2865	2783.1	2619.7	3692
nel Products	753.8	1010.7	1002.6	1409.1	1552.7	2383	1608.8	1422.6	895.5	1920.3	1842.5	1768.8	--
er	480.5	426.9	465.9	511.9	565.6	709.6	780.4	717.1	643.1	944.7	940.7	850.7	
r Agricultural Crops(a)	878.4	1397.5	1495.2	1485.7	1391.1	1364.6	1499.8	1714.2	2561.3	2408.4	3199.3	3409.4	4842
al Exports(a) (b)	5814	7296	8271	8821	12918	14295	15878	20004.0	22674.0	28470	41510	50736	75782
e & Garments	1826	3021	3502	4738	7566	7960	9629	12897.0	14260.0	17631	25163	33261	52586
ium Products	3123	3375	3280	2682	3288	3877	2358	2592.0	2265.0	2242	3974	3289	2770
	865	900	1489	1401	2064	2459	3891	4515.0	6148.0	8597	12374	14185	20418
Exports	805	792	859	1132	834	864	1182	1805.0	2614.0	2693	3484	2562	2749
	664	633	685	940	617	561	755	1447.0	2070.0	2204	2933	2358	2482
	141	159	174	192	217	303	427	358.0	543.0	489	551	204	267
fied(c)	103	785	668	589	1020(d)	2021(d)	1249	1886(d)	1536.0	2963(e)	5601	4543	
omestic Exports													
ɔrts													
ports(b)	17,595	21,043	21,454	25,096	37,347	36,207	34,072	41,133	46,928	56,175	79,481	84,378	104,916

Sources:
Central Bank of Sri Lanka, Annual Report, 1991, Table 1.39
Central Bank of Sri Lanka, Annual Report, 1990, Table 1.38
Central Bank of Sri Lanka, Annual Report, 1989, Table 1.39
Central Bank of Sri Lanka, Annual Report, 1979 - 1988, Table 7.3
Central Bank of Sri Lanka, Annual Report, 1978, Table 11.3

: Selected Items
: Adjusted
: Includes re-exports
: Includes export of an air craft
: Includes export of a ship
Conversion Rates (Rs./1 SDR)

Table 10 : Imports by Major Categories (Rs. Mn. / SDR), 1980-92

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989(a)	1990(c)	1991(b)	1992
ds	10158	9219	8616	8915	8078	10462	12256	13814	17438	20952	28420	32357	37995
	6408	4888	3561	5375	4986	5906	6746	7462	10214	13136	15624	16750	18396
	882	992	925	765	197	1089	1052	687	1808	3396	1758	1589	2852
	1825	28	62	108	28	206	90	96	303	175	1387	1	3
	2026	2826	970	1985	1346	1985	1764	2389	2927	4326	5173	5139	4952
c Products	537	482	515	978	750	751	922	1276	1931	2298	2367	2796	2943
	139	59	163	222	378	510	631	767	945	1003	1312	1686	1804
ıldive fish & Including Dried Prawns)													
	156	43	162	129	245	244	212	193	194	317	427	404	643
	843	458	764	1188	2042	1121	2075	2054	2106	1620	3200	5135	5199
	1721	2334	2167										
	2029	1997	2888	3540	3092	4556	5510	6353	7225	7826			
	596	433	399	529	495	1499	1698	2207	2309	2886			
vision sets	155	277	736	681	407	509	550	500	836	775			
	102	132	188	170	214	240	229	224	253	285			
ical products	259	193	355	408	505	597	831	829	1030	1086			
	917	962	1210	1752	1471	1711	2201	2593	2796	2796			
ate goods(e)	15522	19275	21640	24451	26723	29331	28618	34619	40325	45255			
	1339	1202	560	625	1103	1579	1282	1299	2476	1755			
	8090	9958	12274	11024	10681	10986	6293	8716	7839	8376			
ompounds	544	663	729	832	1028	902	1587	1559	1887	2117			
uring meterials	204	230	246	222	292	289	434	517	542	576			
	456	733	674	687	636	1007	1160	1560	1922	1813			
	575	1697	1787	2340	2471	2765	2371	1923	2800	4964			
ng clothing)				2724	2974	3799	6353	8086	8796	9981			
	4314	4792	5370	5997	7538	8003	9138	10960	14062	15673			
ıent goods	8144	7956	11591	12077	12170	10387	10556	11334	12081	12018			
ing materials	610	525	557	1177	727	899	907	710	1038	991			
port equipments	2421(c)	2229(c)	5529(c)	3826(c)	3031(c)	2499(c)	1457	1418	1409	1833			
inery & equipment	4212	3876	3964	5261	5335	4769	5828	6640	7047	6278			
	898	1326	1541	1813	3077	2219	2364	2566	2586	2916			
& 3)	33824	36456	41847	45443	46971	50180	51430	59767	69844	78235	1(		
ɔorts	118	132	99	115	570	3868	3129	761	1186	1990			
	33942	36582	41946	45558	47541	54049	54559	60528	71030	80225	1(		

continued..

-ble 10 continued..........

z	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989(a)	1990(c)		
r Goods	472.1	406.7	375	354.4	309.8	378.7	372.5	362.6	407.8	453.8	522.5		
Drink	297.8	215.6	155	213.7	191.2	213.8	205	195	238.9	284.4	287.1		
	41	43.8	40.3	30.4	7.5	39.4	32	18	42.3	73.5	32.3		
	84.8	1.2	2.7	4.3	1.1	7.5	2.7	2.5	7.1	3.8	25.5		
	94.2	124.7	42.2	78.9	51.6	71.8	53.6	62.7	68.5	93.7	95.1		
‹ Products	25	21.3	22.4	38.9	28.8	27.2	28	33.5	45.2	49.8	43.5		
	6.5	2.6	7.1	8.8	14.5	18.5	19.2	20.1	22.1	21.7	24.1		
dive fish & Including Dried Prawns)													
	7.3	1.9	7.1	5.1	9.4	8.8	6.4	5.1	4.5	6.9	7.8	7.1	10.4
	39.2	20.2	33.3	47.2	73.8	40.6	63.1	53.9	49.2	35.1	58.8	90.7	84.2
	80	103	94.3										
	94.3	88.1	125.7	140.7	118.6	164.9	167.5	166.7					
	27.7	19.1	17.4	21	19	54.3	51.6	57.9					
evision sets	7.2	12.2	32	27.1	15.6	18.4	16.7	13.1					
	4.7	5.8	8.2	6.8	8.2	8.7	7	5.9					
ical products	12	8.5	15.5	16.2	19.4	21.6	25.3	21.8					
	42.6	42.4	52.7	69.7	56.4	61.9	66.9	68					
ıte goods(e)	721.4	850.3	941.8	972	1024.7	1061.7	869.9	908.6					
	62.3	53	24.4	24.8	42.3	57.2	39	34.1					
	376	439.3	534.2	438.2	409.6	397.6	191.3	228.7					
ɔmpounds	25.3	29.2	31.7	33.1	39.4	32.6	48.2	40.9					
uring meterials	9.5	10.1	10.7	8.8	11.2	10.5	13.2	13.6					
	21.2	32.3	29.3	27.3	24.4	36.4	35.2	40.9					
	26.7	74.9	77.8	93	94.8	100.1	72	50.5					
ng clothing)				108.3	114	137.5	193.1	212.2					
	200.5	211.4	233.7	238.4	289	289.7	277.8	287.6					
ıent goods	378.5	351	504.5	480.1	466.7	376	320.9	297.5					
ing materials	28.4	23.2	24.2	46.8	27.9	32.5	27.6	18.6					
port equipments	112.5	98.3	240.6	152.1	116.2	90.5	44.3	37.2					
inery & equipment	195.8	171	172.5	209.1	204.6	172.6	177.1	174.3					
	41.7	58.5	67.1	72.1	118	80.3	71.9	67.3					
., 2, and 3)	1572	1608	1821.3	1806.5	1801.2	1816.4	1563.3	1568.7					
mports	5.5	5.8	4.3	4.6	21.8	140	95.1	20					
	1577.5	1613.8	1825.6	1811.1	1823	1956.4	1658.4	1588.6					

continued....

-ble 10 continued..........

urces:

ntral Bank of Sri Lanka, Annual Report, 1990 & 1991, Table 43
ntral Bank of Sri Lanka, Annual Report, 1989, Table 41
ntral Bank of Sri Lanka, Review of the Economy, 1985 -1988, Table 73
ntral Bank of Sri Lanka, Review of the Economy, 1984, Table 70
ntral Bank of Sri Lanka, Review of the Economy, 1983, Table 74
ntral Bank of Sri Lanka, Review of the Economy, 1981, Table 72
ntral Bank of Sri Lanka, Review of the Economy, 1979 & 1980, Table 75

Sources:

Customs, Sri Lanka
Food Commissioner's Department
Ceylon Fertilizer Corporation and other major importers of fertilizer
Ceylon Petroleum Corporation
Air Lanka Limited
Ceylon Shipping Corporation

ıtes: From 1983 onwards, textile & clothing imports are classified as intermediate goods. Before 1983, this is included under consumer goods.
Revised
: Provisional
,: Figures for 1990 are different from the published figures in the 1990 annual report due to the re-classification of imports.(figures for before 1990 years are based on old classification?)

Table 11 : Monetary Aggregates, 1980 - 92

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Currency													
1. Total	5009.5	5643.5	6856.5	8173.5	9600	11319.4	12863.2	15063.1	20371.3	21126	23900.5	27522.6	30496.3
2. Held by Government	4.2	1.1	2.2	1.7	4.6	2.6	1.3	2.6	8	5.3	11.1	9.6	10.6
3. Held by banks	824.4	819.5	866.5	971.7	1034.5	1501.3	1292	1565.2	1875.9	1470.5	1769.5	2660.8	3205.1
4. Held by Public	4180.8	4822.9	5987.7	7200.1	8560.9	9815.5	11569.9	13495.3	18487.4	19650.2	22119.9	24852.1	27280.5
Demand Deposits													
5. Total	11684.5	15165.1	15673.3	19188.5	20869.2	23269.9	21577.8	20205.7	30924.8	35519.4	49877.2		
6. Held by Government	2757	2675.3	2457.1	3241.1	3355.9	4617.6	4330.1	3806.5	7727.2	8356.8	12586.5		
7. Held by Banks	3680.1	7288.2	7444.1	8399.5	9250.4	9706.8	7638.5	4811.2	9305.7	11474.9	19532.4		
8. Held by Public	5247.3	5201.5	5772.1	7547.8	8262.9	8945.5	9609.3	11588	13891.9	15687.7	17758.2		
9. Narrow Money Supply M1	9428.2	10024.4	11759.8	14747.9	16823.8	18761	21179.2	25083.3	32379.3	35337.9	39878.1		
10. Time and Savings Deposits Held by Public	10432	14422.4	18750.1	22509	26603.6	29647.9	29681.1	33251.7	35566.5	41095.6	51139.2		
11. Broad Money Supply M2	19860.2	24446.8	30509.9	37256.9	43427.4	48408.9	50860.3	58335	67945.8	76433.5	91017.3		
12. Demand Deposits held by Public as a Percentage of M1	55.6	51.8	49	51.2	49.1	47.7	45.4	46.2	42.9	44.4	44.5		

Sources:
Central Bank of Sri Lanka, Annual Report, 1992, Table 79
Central Bank of Sri Lanka, Annual Report, 1990 & 1991, Table 78
Central Bank of Sri Lanka, Annual Report, 1989, Table 71
Central Bank of Sri Lanka, Review of the Economy, 1986 - 1988, Table 104
Central Bank of Sri Lanka, Review of the Economy, 1985, Table 103
Central Bank of Sri Lanka, Review of the Economy, 1984, Table 97
Central Bank of Sri Lanka, Review of the Economy, 1983, Table 105
Central Bank of Sri Lanka, Review of the Economy, 1979 - 1982, Table 102
Central Bank of Sri Lanka, Review of the Economy, 1978, Table 43
Notes:
Following explanatory notes are based on 1991 report.
(1): Total amount of currency, including subssidiary notes and coins issued by the Central Bank.
(2): Currency held by the treasury and the Kachchries.
(5): Total demand deposits held by the Central Bank and the Commercial Banks.
(6): Government demand deposits with the commercial banks and the Central Bank.
): Inter-bank deposits both local and foreign, including deposits of international organisations and commercial banks with the Central Bank.
1): M2 defined as M1 plus time and saving deposits of the private sector held with commercial banks.
: These figures are distorted as a result of the strike by employees of commercial banks, which began on 1 September 1972 and ended on 17 December 1972.

Table 12 : Commercial Bank Advances to the Private Sector and Public Corporations by Purpose, 1980 - 1992

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Commercial	8771.8	10181.4	12120.4	15262.1	17364.7	18957.5	20390.7	24859.6	28511.8	31924.2	37284.8	37925.3	52866
Financial	447.3	301.1	550.5	711.1	787.6	730.3	812.2	1022.4	1208.5	1674.5	2220.1	2891.3	4327.3
Agricultural	2270.5	2776.9	3053.7	3418.5	3385.6	3539.8	4216.9	5207.0	5830.9	6581.4	9639.2	12011.8	11838.2
Industrial	3837.7	4623.6	6171.4	8033.3	8604.8	9056.2	9332.8	10277.1	13352.8	15980.1	17608.7	18080.1	6479.6
Tourism	-	-	-	-	-	-	-	-	-	737.0	804.3	962.9	3167.6
Housing	769.3	1181.4	1539.0	1982.4	2519.5	2868.6	3440.5	3953.0	4782.6	6066.9	8296	10393.1	5311.7
Consumption	353.8	397.0	425.2	487.9	480.3	644.6	637.8	850.6	1166.1	1522.6	2155.1	2938.7	5311.7
Other	685.7	1536.3	1404.7	1522.0	1776.4	2387.0	2102.4	2432.8	2714.6	2251.8	3099.3	3964.7	6514.6
Total (Rs. Million)	17136.2	20997.2	25264.9	31418.2	34918.6	38184.0	40933.3	48602.6	57567.3	66738.5	81107.5	89167.9	115643.1

Source : Central Bank of Sri Lanka, Annual Reports (various issues)

Table 13 : Commercial Banks' Advances by Purpose and According to Maturity, 1980 - 92

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Commercial													
	6950.3	8272.4	9791.0	12619.5	14501.4	15516.9	16706.9	20381.0	23148.2	26575.5	30108.7		
7)	79.2	81.3	80.8	82.7	83.5	81.9	81.9	82.0	81.2	83.2	80.8		
	1465.7	1558.7	1800.2	2078.0	2341.7	2877.3	3064.3	3281.6	4187.3	3512.0	4732.7		
7)	16.7	15.3	14.9	13.6	13.5	15.2	15.0	13.2	14.7	11.0	12.7		
	355.8	350.3	529.2	564.6	521.6	563.3	619.5	1197.1	1176.3	1836.7	2443.4		
f (7)	4.1	3.4	4.4	3.7	3.0	3.0	3.0	4.8	4.1	5.8	6.6		
	8771.8	10181.4	12120.4	15262.1	17364.7	18957.5	20390.7	24859.6	28511.8	31924.2	37284.8		
s % of Grand Total	51.2	48.5	48.0	48.6	49.7	49.6	49.8	51.1	49.5	47.8	46		
	215.1	131.4	128.2	184.2	317.9	254.9	358.4	503.7	727.8	813.1	1298.6		
7)	48.1	43.6	23.3	25.9	40.4	34.9	44.1	49.3	60.2	48.6	58.5		
	138.2	145.1	251.5	346.5	440.8	440.9	423.7	459.9	448.5	573.4	589.3		
7)	30.9	48.2	45.7	48.7	56.0	60.4	52.2	45.0	37.1	34.2	26.5		
	94.0	24.6	170.8	180.4	28.8	34.5	30.1	58.9	32.2	288.0	332.2		
f (7)	21.0	8.2	31.0	25.4	3.7	4.7	3.7	5.8	2.7	17.2	15		
	447.3	301.1	550.5	711.1	787.6	730.3	812.2	1022.4	1208.5	1674.5	2220.1		
% of Grand Total	2.6	1.4	2.2	2.3	2.3	1.9	2.0	2.1	2.1	2.5	2.7		
	1503.7	1690.0	1731.3	1942.6	2260.1	2280.1	2432.7	2638.9	2766.0	3042.8	4979.4		
7)	66.2	60.9	56.7	56.8	66.8	64.4	57.7	50.7	47.4	46.2	51.7		
	608.6	921.5	1164.4	1250.0	764.4	717.8	935.6	902.0	903.6	906.3	1465.3		
7)	26.8	33.2	38.1	36.6	22.6	20.3	22.2	17.3	15.5	13.8	15.2		
	158.2	165.4	158.0	226.0	361.1	541.9	848.6	1666.1	2161.3	2632.3	3194.5		
f (7)	7.0	6.0	5.2	6.6	10.7	15.3	20.1	32.0	37.1	40.0	33.1		
	2270.5	2776.9	3053.7	3418.5	3385.6	3539.8	4216.9	5207.0	5830.9	6581.4	9639.2		
s % of Grand Total	13.2	13.2	12.1	10.9	9.7	9.3	10.3	10.7	10.1	9.9	11.9		
	2847.5	3357.5	4512.1	6166.1	6631.2	6869.1	7120.9	7911.0	9213.1	11991.1	13008.6	13248	1297.7
7)	74.2	72.6	73.1	76.8	77.1	75.8	76.3	77.0	69.0	75.0	73.9	73.3	71.4
	767.4	952.2	1251.4	1389.6	1364.5	1485.7	1468.4	1511.1	2697.6	2432.0	2433.5	2536.4	2604.7
7)	20.0	20.6	20.3	17.3	15.9	16.4	15.7	14.7	20.2	15.2	13.8	14.0	14.4
	222.8	313.9	407.9	477.5	608.8	701.4	743.5	855.0	1442.1	1557.0	2166.6	2295.7	2577.2
f (7)	5.8	6.8	6.6	5.9	7.1	7.7	8.0	8.3	10.8	9.7	12.3	12.7	14.2
	3837.7	4623.6	6171.4	8033.3	8604.8	9056.2	9332.8	10277.1	13352.8	15980.1	17608.7	18080.1	18109.6
s % of Grand Total	22.4	22.0	24.4	25.6	24.6	23.7	22.8	21.1	23.2	23.9	21.7	20.3	15.7

continued........

Table 13 continued.....

Tourism	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990		
(1) Short Term	-	-	-	-	-	-	-	-	-	294.0	345		
(2)= (1) as % of (7)	-	-	-	-	-	-	-	-	-	39.9	42.9		
(3) Medium Term	-	-	-	-	-	-	-	-	-	90.1	85.6		
(4)= (3) as % of (7)	-	-	-	-	-	-	-	-	-	12.2	10.6		
(5) Long Term	-	-	-	-	-	-	-	-	-	352.0	373.7		
(6)= (5) as % of (7)	-	-	-	-	-	-	-	-	-	47.8	46.5		
(7) Total	-	-	-	-	-	-	-	-	-	737.0	804.3		
(8)= (7) as % of Grand Total	-	-	-	-	-	-	-	-	-	1.1			
Housing													
(1) Short Term	112.7	276.3	345.7	424.8	505.5	572.3	597.1	768.8	845.6	1110.9	1506.[illegible]		
(2)= (1) as % of (7)	14.6	23.4	22.5	21.4	20.1	20.0	17.4	19.4	17.7	18.3	18.[illegible]		
(3) Medium Term	305.1	357.3	429.5	570.2	729.4	873.8	1009.9	1015.8	1220.7	1332.4	1953.[illegible]		
(4)= (3) as % of (7)	39.7	30.2	27.9	28.8	29.0	30.5	29.4	25.7	25.5	22.0	23.[illegible]		
(5) Long Term	351.5	547.8	763.8	987.4	1284.5	1422.5	1833.6	2168.4	2716.3	3623.6	4865.[illegible]		
(6)= (5) as % of (7)	45.7	46.4	49.6	49.8	51.0	49.6	53.3	54.9	56.8	59.7	58.[illegible]		
(7) Total	769.3	1181.4	1539.0	1982.4	2519.5	2868.6	3440.5	3953.0	4782.6	6066.9	829[illegible]		
(8)= (7) as % of Grand Total	4.5	5.6	6.1	6.3	7.2	7.5	8.4	8.1	8.3	9.1	10.[illegible]		
Consumption													
(1) Short Term	135.8	183.2	204.6	256.4	279.6	415.0	390.0	500.0	761.4	970.8	1331.3		
(2)= (1) as % of (7)	38.4	46.1	48.1	52.6	58.2	64.4	61.1	58.8	65.3	63.8	61.8		
(3) Medium Term	171.3	178.4	178.4	192.9	174.9	195.7	208.2	268.1	302.6	431.1	644.1		
(4)= (3) as % of (7)	48.4	44.9	42.0	39.5	36.4	30.4	32.6	31.5	25.9	28.3	29.9		
(5) Long Term	46.7	35.4	42.2	38.6	25.8	33.9	39.5	82.4	102.1	120.7	179.7		
(6)= (5) as % of (7)	13.2	8.9	9.9	7.9	5.4	5.3	6.2	9.7	8.8	7.9	8.3		
(7) Total	353.8	397.0	425.2	487.9	480.3	644.6	637.8	850.6	1166.1	1522.6	2155.1		
(8)= (7) as % of Grand Total	2.1	1.9	1.7	1.6	1.4	1.7	1.6	1.8	2.0	2.3	2.7		
Other													
(1) Short Term	264.6	557.8	688.4	712.5	727.2	1070.7	875.9	1110.3	1287.7	902.8	1346.2	1653.8	2711.2
(2)= (1) as % of (7)	38.6	36.3	49.0	46.8	40.9	44.9	41.7	45.6	47.4	40.1	43.4	41.7	41.6
(3) Medium Term	179.7	267.6	524.2	581.5	672.6	807.6	767.5	687.4	678.5	721.6	895.4	1103.2	1974.1
(4)= (3) as % of (7)	26.2	17.4	37.3	38.2	37.9	33.8	36.5	28.3	25.0	32.0	28.9	27.8	30.3
(5) Long Term	241.4	710.5	192.1	228.0	376.4	508.7	459.0	635.1	748.4	627.4	857.7	1207.7	1829.3
(6)= (5) as % of (7)	35.2	46.2	13.7	15.0	21.2	21.3	21.8	26.1	27.6	27.9	27.7	30.5	28.1
(7) Total	685.7	1536.3	1404.7	1522.0	1776.4	2387.0	2102.4	2432.8	2714.6	2251.8	3099.3	3964.7	6514.6
(8)= (7) as % of Grand Total	4.0	7.3	5.6	4.8	5.1	6.3	5.1	5.0	4.7	3.4	3.9	4.4	5.6

continued......

Table 13 continued......													
Total	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
(1) Short Term	12029.5	14468.6	17401.2	22306.0	25223.0	26979.0	28481.9	33813.6	38749.8	45701.9	53924.5	55896.6	74573.1
(2)= (1) as % of (7)	70.2	68.9	68.9	71.0	72.2	70.7	69.6	69.6	67.3	68.5	66.5	62.7	64.5
(3) Medium Term	3636.3	4380.8	5599.7	6408.6	6488.7	7398.8	7877.7	8126.0	10438.8	9998.9	12769.4	17156.2	19861.5
(4)= (3) as % of (7)	21.2	20.9	22.2	20.4	18.6	19.4	19.2	16.7	18.1	15.0	15.7	19.2	17.2
(5) Long Term	1470.4	2147.8	2264.0	2703.5	3207.1	3806.2	4573.7	6663.0	8378.7	11037.7	14413.6	16115.1	21208.5
(6)= (5) as % of (7)	8.6	10.2	9.0	8.6	9.2	10.0	11.2	13.7	14.6	16.5	17.8	18.1	18.3
(7) Total	17136.2	20997.2	25264.9	31418.2	34918.6	38184.0	40933.3	48602.6	57567.3	66738.5	81107.5	89167.9	115643.1
(8)= (7) as % of Grand Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Sources:

Central Bank of Sri Lanka, Bulletin, March 1992, Table 16
Central Bank of Sri Lanka, Annual Report, 1990, Table 1.58
Central Bank of Sri Lanka, Annual Report, 1989, Table 1.61
Central Bank of Sri Lanka, Review of the Economy, 1986 - 1988, Table 112
Central Bank of Sri Lanka, Review of the Economy, 1985, Table 111
Central Bank of Sri Lanka, Review of the Economy, 1984, Table 105
ntral Bank of Sri Lanka, Review of the Economy, 1979 & 1981, Table 114
ntral Bank of Sri Lanka, Annual Report, 1973 & 1974, Table 11 (E).10
Bank of Sri Lanka, Annual Report, 196, 1969 & 1971, Table 11 (E).11
Bank of Sri Lanka, Annual Report, 1966, Table 11 (C).12
l Bank of Sri Lanka, Annual Report, 1965, , Table 11 (C).15

964 - 1969: short-trem: below 6 months, Medium term: 6 months to 30 months, Long-term: Over 30 months

Table 14 : Public vs. Private Sector Investment (Rs. Million) , 1980- 92

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990*	1991*	1992*
A. Gross Domestic Fixed Capital Formation	20845	23279	30279	35342	39558	38457	42326	45752	49961	54249	70417	84206	99507
1. Private Sector & Public Corporations	16136	19153	25413	29379	32483	30690	32692	34536	37156	39943	57910	68368	83373
2. Government & Public Enterprises	4709	4126	4866	5963	7075	7767	9634	11216	12805	14306	12507	15838	16134
B. Changes in Stocks	1620	331	248	-210	150	225	137	148	601	473	1038	950	1000
1. Private Sector & Public Corporations	640	451	170	-145	210	200	187	190	281	388	880	905	945
2. Government & Public Enterprises	980	-120	78	-65	-60	25	-50	-42	320	85	158	45	55
C. Gross Domestic Capital Formation	22465	23610	30527	35132	39708	38682	42463	45900	50562	54722	71455	85156	100507
1. Private Sector**	9095	11055	14625	29234	32693	30390	32879	21118	24330	27955	45310	69273	84318
2. Public Corporations	7681	8549	10958					13608	13107	12376	13480		
3. Government & Public Enterprises	5689	4006	4944	5898	7015	7792	9584	11174	13125	14391	12665	15883	16189

Source : Central Bank of Sri Lanka, Annual Reports (various issues)

Table 15 : Gross Domestic Capital Formation at Current Market Prices,1980 - 92

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
ixed Capital Formation	20845	23279	30279	35342	39558	38457	42326	45752	49961	54249	70417	84206	99507
ıblic Corporations	16136	19153	25413	29379	32483	30690	32692	34536	37156	39943	57910	68368	83373
ting & Land Development	264	311	433	451	492	650	1126	965	1201	1365	1448	1493	1162
r Construction	6270	7906	8988	12058	13746	14310	17346	18686	20931	22521	35239	38270	45388
ry	3831	4176	6329	8595	8701	8175	8534	9842	9965	9152	12309	15143	11047
ment	4549	4962	7063	5216	4352	3809	1931	1973	1841	2730	5730	9208	14398
ods	1222	1798	2600	3059	5192	3746	3755	3070	3218	4175	3184	4254	11378
lic Enterprises	4709	4126	4866	5963	7075	7767	9634	11216	12805	14306	12507	15838	16134
	1620	331	248	-210	150	225	137	148	601	473	1038	950	1000
ıs	640	451	170	-145	210	200	187	190	281	388	880	905	945
	980	-120	78	-65	-60	25	-50	-42	320	85	158	45	55
ın	22465	23610	30527	35132	39708	38682	42463	45900	50562	54722	71455	85156	100507
	9095	11055	14625	29234	32693	30890	32879	21118	24330	27955	45310	69273	84318
ions	7681	8549	10958					13608	13107	12376	13480		
Public Enterprises	5689	4006	4944	5898	7015	7792	9584	11174	13125	14391	12665	15883	16189

urces:

ntral Bank of Sri Lanka, Annual Report, 1989 - 1992, Table 7

ntral Bank of Sri Lanka, Review of the Economy, 1978 - 1982, 1984, 1986 - 1988, Table 7

Table 16: Percentage of Income Received by Deciles of Income Receivers and Spending Units

Decile	Income Receivers				Spending Units			
	1973	1978/79	1981/82	1985/86	1973	1978/79	1981/82	1986/87
Top 10 per cent	30.0	39.1	41.7	49.3	28.0	35.9	37.3	39.1
Middle 50 per cent	54.9	48.8	46.5	43.7	52.7	48.0	47.4	46.8
Bottom 40 per cent	15.1	12.1	11.8	7.1	19.3	16.1	15.3	14.1

Sources: CFS 1973, CFS 1978/79, CFS 1981/82, CFS, 1986/87, and LFSES, 1985/86.

Notes:

(1)A spending unit consists of all the members of a household who act as a unit in decision-making for spending.

(2) Data for the post-1983 period are computed excluding the districts in the North and East except Ampara.

(3) Income received data for 1985/86 are from LFSES, 1985/86. There are problems in regard to obtaining the data for 1986/87 from the CFS, 1986/87.

Table 17: Sectoral Income Distribution Pattern

	Population (%)	Sectoral distribution of Total Income	
	Early 1980s	1981/82	1985/86
Urban	22	28.1	35.6
Rural	72	67.2	59.4
Estate	06	4.6	5.0
Total	100	100	100

Source: CFS, 1981/82 and LFSES, 1985/86.

Table 18
Number of Companies Incorporated 1982 - 1992

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
PRIVATE	861	625	742	773	832	975	977	886	1198	1338	1790
PUBLIC	48	49	25	24	17	29	34	45	46	128	123
OFF SHORE	-	13	05	03	02	-	07	05	04	03	07
PEOPLES	-	-	21	05	04	03	02	02	-	02	02
ASSOCIATION	11	16	09	18	16	26	29	44	54	43	48
GUARANTEED	06	-	03	02	05	02	01	01	01	03	04
FOREIGN	-	-	-	-	-	-	-	10	09	13	25
TOTAL	926	703	805	825	876	1035	1050	993	1312	1530	1999

Source: Department of the Registrar of Companies.

Table 19 : Employments Statistics-Semi-Government Institutions*, 1986 - 92

	1986	1987	1988	1989	1990	1991	1992
Professional, Technical and Related Workers	15100	17100	17800	18000	15500	16400	15378
Administrative and Managering Workers	18600	19100	19600	19600	21300	19900	19502
Clarical and Related Workers	128300	132500	135500	135800	119700	107500	105350
Sales Workers	2800	2900	2700	2800	2800	2800	2712
Service Workres(2)	13500	14000	14900	15400	18200	16100	15609
Agriculture, Livetock,Forestry and Fishing	3100	3200	3400	3500	3700	3800	844
Production and Related Workres	25700	26500	26300	26300	16500	14300	13187
Drivers and Tranport Equipment Operators	37100	37000	37800	37800	27000	19200	18127
Manual Workers- Estate	433100	409000	402600	400500	394100	371100	363678
-Other(unclassifed)	90800	91400	92300	90000	84400	83300	79991
Total	768100	752700	752900	749700	703200	654400	634378

Sources:

Central Bank of Sri Lanka, Annual Report, 1992, Table 28.

Central Bank of Sri Lanka, Annual Report, 1991, Table 27.

Central Bank of Sri Lanka, Annual Report, 1990, Table 27.

Central Bank of Sri Lanka, Annual Report, 1989, Table 27.

Central Bank of Sri Lanka, Review of the Economy, 1988, Table 52.

Note:

(1) Estimates of employment in the government and semi government institutions have been completely revised on the basis of a survey carried out by the Central Bank. In addition employment data have been classified according to the Standard Occupational Classification. This table therefore not comparable with the first one.

(2) Service workers include Reservists strength of the Sri Lanka Police.

*: Public Corporations, Universities, Boards and Banks etc.

Table 20 : Employments Statistics: Government Departments,1986 - 92

	1986*	1987*	1988*	1989*	1990*	1991*	1992*
Professional, Technical and Related Workers	203200	205100	205800	238900	249000	232300	241148
Staff	15400	15700	15800	16100	15800	15500	16586
Non-staff	16300	20100	20100	20200	19800	16500	16956
Teachers	142600	140100	140300	166100	178300	170500	175682
Health-Doctors	3900	4100	4100	4500	410	4500	4612
Other	25000	25100	25500	32000	31000	25300	27312
Administrative and Managerial Workers	10800	10800	10900	11000	10500	10600	11063
Clerical and Related Workers	98100	99100	99700	101700	100700	95200	93608
Clerical	86300	86800	87300	89000	88100	85300	83539
Other	11800	12300	12400	12700	12600	9900	10069
Sales Workers	900	900	900	900	850	900	1020
Service Workers (2)	79900	108700	130000	150000	203950	237800	227635
Agriculture, Livestock, Forestry and Fishing	9900	9000	8000	6000	5500	4500	3973
Production and Related Workers	22300	20900	21000	20000	20000	17300	18000
Drivers and Transport (Equipment Operators)	7500	7600	7800	8500	8000	7400	7810
Manual Workers and Workers n.e.i	50800	51200	51400	51500	50500	46600	49702
Total	483400	513300	535500	588500	649000	652600	653959

Sources:
Central Bank of Sri Lanka, Annual Report, 1992, Table 27.
Central Bank of Sri Lanka, Annual Report, 1991, Table 26.
Central Bank of Sri Lanka, Annual Report, 1990, Table 26.
Central Bank of Sri Lanka, Annual Report, 1989, Table 26.
Central Bank of Sri Lanka, Review of the Economy, 1988, Table 51.

Notes:
(1) Estimates of employment in the government and semi government institutions have been completely revised on the basis of a survey carried out by the Central Bank. In addition employment data have been classified according to the Standard Occupational Classification. This table therefore not comparable with the first one.
(2) Service workers include Reservists strength of the Sri Lanka Police.
*: Provisional

Table 21 : Employment in State Industries,1985 - 92

	1985	1986	1987	1988	1989	1990	1991	1992
National Milk Board	1688	1611						
Ceylon Oils & Fats	973	973	901	903	881	784	n.a	n.a
Sri Lanka Sugar	4471	6932	6260	4847	4873	4286	4382	4228
Sri Lanka National Salt	1925	2020	1707	1696	1754	1462	1583	1434
State Distilleries	1901	1909	1856	1838	1802	1772	1752	1650
G.O.B.U. of British Ceylon Corporation Ltd.	1226	1172	1102	1061	1061	935	890	301
G.O.B.U. of National Textile	8859	7459	8437	8342	9114	3318	3465	998
Ceylon Leather Products	1171	1229	1231	1259	1224	1176	824	799
Ceylon Plywoods	3455	2862	2713	2357	2259	2250	-	-
State Timber	3362	2492	3283	3347	3288	3135	2831	2094
National Paper	3953	3986	3797	3564	3685	3651	3648	3248
State Printing	492	472	486	452	452	575	556	584
Paranthan Chemicals	435	413	392	376	299	292	313	301
Sri Lanka Ayurvedic Drugs	283	325	402	415	385	344	336	318
State Fertilizer Manufacturing	954							
Ceylon Petroleum	5842	5864	5862	6019	6077	5944	6077	5273
Sri Lanka Tyre	1812	1820	1773	1978	1944	1992	1958	1803
Sri Lanka (Ceylon) Rubber Manufacturing Co.	215	186	202	217	268	284	327	278
G.O.B.U. of Ceylon Oxigen Ltd.	421	410	446	414	403	438	370	322
G.O.B.U. of Colombo Gas & Water Co. Ltd.	417	452	510	545	595	525	538	553
Ceylon Ceramics	4797	4902	4625	4352	4170	4294	2892	2628
Sri Lanka Cement	3895	3510	3405	3398	3474	3386	3312	2724
Ceylon Mineral Sands	542	489	453	482	507	498	483	475
State Mining and Mineral Development	2132	2160	1982	2092	2030	1920	1905	1895
Ceylon Steel	1568	1535	1519	1543	1515	1486	1467	1398
State Hardware	795	760	696	558	551	536	529	516
Total	57584	54332	54049	52050	52611	45283	40436	33820

Sources:
Annual Report, Central Bank of Sri Lanka, 1992, Table 22
Annual Report, Central Bank of Sri Lanka, 1990 & 1991, Table 20
Annual Report, Central Bank of Sri Lanka, 1989, Table 21

Table 22
Employment Distributions by Sector, 1980/81, 1990

Sector	1980/81		1990		Average Annual Growth 1980/81-1990	
	Emp. (000)	%	Emp. (000)	%	Emp.	GDP
Agriculture	2,173	45.9	2,851	47.9	3.1	2.8
Mining	64	1.3	161	2.7	5.2	6.6
Manuf.	568	12.0	866	14.5	5.2	5.0
Elec., gas, water	18	0.4	13	0.2	-2.8	16.2
Constr.	229	4.8	183	3.1	-2.0	0.5
Trade	491	10.4	510	8.6	0.4	6.2
Transp.	197	4.1	247	4.1	2.5	4.9
Fin. & Ins.	53	1.1	49	0.8	-0.8	5.7
Services	648	13.7	979	16.4	5.1	9.8
Not def.	297	6.3	99	1.7	-6.7	--
Total	4,738	100.0	5,959	100.0	2.6	5.0

Source: Department of Census & Statistics, National Accounts and Labour Force Surveys.

Table 23
Labour Market Indicators 1980-90

	1980/81	1985/86	1990	% Change 1980/81-1985/86	% Change 1985/86-1990
Labour Force (thousands)	5,595	5,972	6,968	6.7	16.7
Participation Rates a/	46.5	46.5	53.3	2.2	12.2
Employment (thousands)	4,738	5,132	5,964	8.3	16.2
Unemployment (thousands)	857	840	1,005	-2.0	19.6
Unemployment Rate	15.3	14.1	14.4	-7.8	2.1
Value Added (Rs. Million) b/	76,432	97,463	112,572	27.5	15.5
Productivity (thousands) c/	16,132	18,833	18,891	16.7	0.3
Compensation per employee d/	7,048	8,526	8,418	21.0	-1.3
Unit labour costs e/	.4369	.4527	.4456	3.6	-1.6
Gross domestic capital formation per worker f/	4,875	4,379	3,849	-10.2	-12.1

a/ Noninstitutional labour force as percentage of population greater than 10 years of age.
b/ Constant (1980.81) rupees. 2-year average.
c/ Thousands of (constant) value added rupees per employed population.
d/ 2-year average divided by 2-year average deflator.
e/ Real value of compensation per employee (per year) divided by productivity.
f/ 1980/81 prices. Two-year average for 1980/81 and 1985/86. Excludes foreign investment.

Source: Dept. of Census & Statistics, various Labour Force Surveys and National Accounts.