

**Country Study for Development Assistance
to the Democratic Socialist Republic of Sri Lanka**

“Basic Strategy for Development Assistance”

March 1991

**Country Study Group
for Development Assistance
to the Democratic Socialist Republic of Sri Lanka
Organized by the Japan International Cooperation Agency**

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Foreword

As can be seen in its higher school attendance and literacy rates, Sri Lanka, compared with its neighboring countries, enjoys a relatively high standard of human resources under its government policy of strongly emphasizing social welfare. From an economic point of view, however, Sri Lanka has lagged behind the rapidly developing NIES and ASEAN countries, and still heavily depends on the export of such traditional commodities as tea and rubber. The biggest obstacle to development of Sri Lanka is the ethnic conflict between Sinhalese and Tamils, which has escalated rapidly since 1983. The prolonged ethnic conflict has been causing not only human casualties but also various social, economic and political problems in the country. Given the high development potential of Sri Lanka and the friendly relation between the two countries, Japan strongly wishes for a peaceful solution to the conflict. To this end, Japan's development assistance must be directed toward achieving balanced development, making the most of Sri Lanka's rich human resources and geographical advantage.

Since 1986 Japan has become the largest donor of bilateral aid to Sri Lanka and in 1988, Japan provided 46 % of all the bilateral aid Sri Lanka received. Japan's development assistance is intended to encourage the recipients' own efforts and is thus to be initiated by their requests for it. But because of the increasing influence of Japan's development assistance on Sri Lanka's development planning, Japan is

now expected to plan and implement its development assistance under a consistent policy, in close coordination not only with the government of Sri Lanka but also with other donor countries, United Nations organizations, and international financial organizations. To meet this expectation, it will be extremely important to examine the basic direction that Japan's development assistance should take from medium- and long-term perspectives.

The Country Study Group for development assistance to Sri Lanka was organized in July 1990 under consignment from the Japan International Cooperation Agency (JICA). It convened seven meetings including a public discussion meeting. It has also implemented field surveys, including interviews with the government officials of Sri Lanka. Through a series of discussions, the Study Group has examined the present state of Sri Lanka's socio-economic development and identify the optimum course that Japan's development assistance should take. After preparing its draft report, the Study Group had a meeting to exchange views and opinions and promote understanding on the report with the Sri Lankan side as well as other donor agencies. Special mention here must be made of the strong support given by the staff members in the relevant divisions of the Ministry of Foreign Affairs and by the Task Force mainly comprised of JICA staff, not to mention the invaluable cooperation given by all the members of the Study Group.

This report is the result of such joint efforts. In view

of the importance of Sri Lanka's economic development, I sincerely hope that it will contribute to the formulation of consistent policy for Japan's development assistance to Sri Lanka and to the deepening of friendship between the two countries.

March 1991

Country Study Group for Development Assistance
to the Democratic Socialist Republic of Sri Lanka
Chairman : Ryokichi Hirono

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1. Framework for considering development assistance to Sri Lanka

1.1 Overall review

Sri Lanka is an island country located off the southern tip of the Indian subcontinent. Since the beginning of history, it has had diverse ties to the civilizations of southern India and has served as a link in maritime trade between East and West, and from the 16th century on, it was colonized by Western powers. Since attaining independence in 1948, it has had democratic governments, each duly elected. Their policies stressing social welfare have achieved levels of literacy, schooling, infant mortality, maternal mortality, and average life expectancy that are better than those in neighboring countries. Its 1988 per capita gross national product, however, remains at a very low \$ 420, and severe income disparities exist between social classes and geographical regions. Persistent ethnic conflict between Sinhalese and Tamils since 1983 and the subsequent decline in public security are still present today, although some signs of improvement have been seen since 1990. Besides, the disruptive influence of the activities of a Sinhalese militant group called JVP (People's Liberation Front) had increased by 1989. These unrests were the greatest impediment to Sri Lanka's economic development in the 1980s.

The economic and commercial stagnation that has resulted from ethnic unrest, increased spending on arms, fallout on

tourism and on investment from these events, recent sinking prices of tea and rubber (traditionally Sri Lanka's main exports), and declining agricultural production due to drought and bad weather have driven Sri Lanka into an ever more serious economic plight: a deficit-ridden balance of payments, spiraling inflation, and insufficient job opportunities. The government of Sri Lanka has continued to implement economic reforms to combat its economic woes, relying on market mechanisms to carry out free and open market policies, budget balancing, and structural improvements in the public sector, in addition to an urgent special focus on reducing unemployment. It has accepted the recommendations of the World Bank and the International Monetary Fund (IMF), and in 1988 agreed to the IMF's proposed framework for a structural adjustment program. It was in this context that the Gulf Crisis erupted with the Iraqi invasion of Kuwait in August 1990, triggering further economic troubles, namely higher oil prices and a slowdown in its exports to the Gulf states, together with a return to their country of several tens of thousands of Sri Lankans until then employed in the Gulf, aggravating unemployment.

1.2 Basic strategy for development assistance

Foreign countries provided \$ 592 million in aid to Sri Lanka in 1987, equivalent to 28% of Sri Lanka's national budget outlays. Since 1986, Japan has been the largest donor of bilateral official development assistance (ODA) to Sri Lanka; in 1988, Japan provided Sri Lanka about 46% of

all the ODA Sri Lanka received in various forms of assistance. In the future, Japan intends to emphasize qualitative improvement of the assistance to Sri Lanka, seeking more effective forms of aid, while bearing in mind quantitative increases as well. Japan should cooperate with Sri Lanka for its peaceful development through coordination both with the government of Sri Lanka and with aid agencies of other countries, international organizations, and non-governmental organizations.

Because foreign aid aims above all to assist the recipient's own efforts, Japan's aid to Sri Lanka should be formulated and implemented in accordance with the Sri Lanka government's development policies and plans, and should be implemented in a manner that supports the achievement of its objectives. As mentioned, Sri Lanka is now carrying out a structural adjustment program assisted by the World Bank, IMF, and Japan should assist Sri Lanka to achieve the objectives of this program by coordinating action and implementing cooperation through linkage with the government of Sri Lanka. At the same time, however, it is also important to assist the poorest segments of the population, who are most likely to be adversely affected by structural adjustment policies. Areas where Japan's support is especially needed include the correction of disparities between the rich and the poor and among regions while ensuring overall growth, the creation of jobs, and reconstruction measures in regions which have suffered from protracted ethnic conflict.

With the objective of sound economic management as

a modern nation, Sri Lanka is seeking to effect suitable growth of various industries. To this end, it must simultaneously build up both an appropriate industrial base and human resources, as well as promote a shift of the population from the agricultural sector to other sectors by modernizing agriculture and rural communities. A stable flow of human resources from agriculture plays an important role in supporting the emergence and growth of other industries. To support harmonious economic growth in Sri Lanka, Japan's assistance should be focused on the linkages and balances among different industries.

Criticism is heard that balanced national development has been delayed by the concentration of funding thus far on large-scale projects like the Accelerated Mahaweli Development Program. In the future, more attention should be paid to the need for striking a balance between large- and small-scale projects ; in particular for supporting those small- and medium-scale projects which directly promote the stabilization of people's livelihoods.

While Sri Lanka has had very close geographical and historical ties to India and its subcontinent, its important link through maritime transportation and communications with the Middle East and Southeast Asia should be further exploited. Its minuscule domestic market is one reason why relations with these and other foreign countries will be increasingly important for its future economic development. Furthermore, it may be well advised that Sri Lanka seize

enormous potentials for gains from closer economic linkages with its East Asian neighbors. Japan must bear this in mind and take into account Sri Lanka's geographical situation in assisting Sri Lanka, seeking a balanced approach to the whole region and viewing interrelationships from a broad perspective.

2. Issues and constraints on development in Sri Lanka

2.1 Repercussions of ethnic conflict

One of the most serious problems affecting Sri Lanka's future development is the aggravation and prolongation of conflict between the Sinhalese majority and Tamil minority. The conflict escalated suddenly after riots in 1983. It has resulted in direct injury to many people and had an extremely adverse impact on the national economy and society, including increased military spending, leading to tighter finances; interruption of development projects due to deterioration of public order in the Northeast, the focus of ethnic clashes; paralysis of distribution channels in the Northeast; overseas flight of capital and diminution of foreign investment; diminution of tourists; and transformation of the masses in the Northeast into refugees.

Since 1989, the government of Sri Lanka has made active efforts to restore peace, leading to the establishment of a cease-fire with LTTE, a Tamil extremists' group, in May 1989. It seemed as if peace would be restored in March 1990 with a full withdrawal of the Indian Peace Keeping Force (IPKF), but fighting broke out again in June 1990 between LTTE and government troops in the North and still continues today.

Sri Lanka, endowed with relatively skilled human resources, has just embarked on its economic development based on

appropriate macro-economic policies. To sustain further growth, it is strongly hoped that the basis for peaceful coexistence between the majority and the minority ethnic groups will be firmly established as soon as possible through national reconciliation. Prompt action is necessary to restore the devastated areas and rectify the income maldistribution and regional disparities, one of the causes of the current ethnic conflict. Human rights issues in Sri Lanka have attracted a lot of attention from the international community in recent years. The protection of human rights is nowadays a major concern of the international community and not just a domestic issue. It is thus hoped that the government of Sri Lanka will honour its commitment to the respect of human rights in the country.

2.2 Swelling budget deficit and foreign debts

After a long period of sluggish economic performance from the 1960's to the mid-1970's, the Sri Lankan economy grew rapidly at the average annual rate of 6.2 % (from 1978 to 1982) under the new free-market and development-oriented policies of the Jayewardene government beginning in 1977, despite such adverse factors as the oil crisis and a world economic slowdown.

During this period of high growth, however, there arose some serious economic problems. The most severe among them was the rapid rise of government budget deficit aggravated by extremely active public investment, which contributed

to widening the resource gap, increasing the foreign debts, and spiraling inflation. Falling prices for tea and other primary commodities in recent years have also further worsened Sri Lanka's balance of international payments, and the slowdown in economic and commercial activities and increased military expenditure resulting from the ethnic conflict have further exacerbated the fiscal problem. Beginning in 1988, the government of Sri Lanka, together with IMF and the World Bank, drew up an economic structural adjustment program and began to rebuild its finances by rationalizing and unifying inefficient public enterprises, widening the tax base and improving the tax collection rate, as well as fostering import-substitution industries and developing non-traditional exports to improve the balance of international payments. Sri Lanka's policies have long emphasized social welfare. A food stamp program begun in 1979, a lunch delivery program, and an poverty alleviation program called Janasaviya ("people's power") were launched in 1989 at great cost to the government. The review of these programs is now on the agenda of the above-mentioned structural adjustment program.

2.3 Excessive size and inefficiency of the public sector

Sri Lanka has an immense public sector consisting of central government, public enterprises, and government organizations. All together, they employ about 1.25 million, about 20% of the entire active population of 6.19 million.

2.3.1 Central government

Government spending accounts for 33 % to 34 % of GDP. One half of the government's current expenditures go to the payment of salaries and pensions to public employees and to administrative costs, the remaining half to the national debt service and revenue transfers to citizens through a variety of welfare programs and subsidies to public enterprises. Sri Lanka once had over 40 ministries, but their merger and abolition have been in progress since February 1989. Currently there are 24 ministries and 130 departments, in addition to 86 government organizations. These ministries and government organizations employ a total of 700,000 people, and about 20 % of civil servants working with the government ministries and departments are said to be redundant. Current transfers to various public enterprises cost about 1 % of GDP, contribute to the budget deficit, encouraging inefficiency in public enterprises, and inhibiting sound development of the private sector. Continued efforts to rationalize administrative organizations and systems is therefore vital for Sri Lanka's stable and sustained social and economic development.

2.3.2 Public enterprises

Even after deregulation in 1977, public enterprises have remained quite significant. The present 130 public enterprises employ about 600,000 (of whom 400,000 are employees of the national tea and rubber estates) and they produce about 8 % of the GDP. It is interesting to observe that while industrial

production in 1989 grew by 15% in the private sector, that of government-run enterprises shrank by 21%. Similar observations can be made with regard to banks, insurance, tea plantations, and bus transportation.

As part of its on-going structural adjustment program, the government of Sri Lanka is carrying out privatization of public enterprises, but so far it's lagging behind partly due to the lack of an efficient financial market, which has blocked the government's efforts for commercialization and privatization. There is also a legitimate fear inside and outside the government that privatization, if not carefully pursued and programmed, may lead to private and/or foreign monopoly of relevant sectors of the national economy.

2.4 Disparities between the rich and the poor and among regions

Sri Lanka has long promoted those policies that put priority on social welfare and on rural areas, generating positive achievements, measured by such social indicators as the high rate of school education and the low rates of infant mortality and population growth (including the urban population). Nevertheless, the gap between the rich and the poor remains wide, and a large segment of the population, 27%, mainly in the rural areas, is poor. The recent deregulation and market improvement measures are said to have further contributed to widening the gap. The most severe poverty affects women in rural areas, especially

woman-headed households : The impact on rural cottage industries of deregulation of trade and entry of foreign capital is said to have progressively worsened the plight of women at the bottom of the economic ladder in rural areas.

More than 60% of the farmers in Sri Lanka are tenant farmers with small plots of less than 0.6 ha. These small tenants earn even less than female factory workers, and too few jobs are available to fill the gap in rural districts. In the wet southwestern region, covering one quarter of Sri Lanka, where annual rainfall exceeds 1,875 mm and which is inhabited by 60% to 70% of the total population, the plantation sector occupies a large portion of the territory and further expansion of tenant farming is virtually impossible. There exists a serious land problem, aggravated by population growth. Major steps that must be taken to alleviate poverty in rural zones and reduce the number of the poor, include more effective use of land, development of dry land, and promotion of rural industry, as well as modernization of agriculture in close coordination with that of other industries.

Major gaps also exist among different regions in Sri Lanka. The per capita income is three to four times higher in Western Sri Lanka, where Colombo is located, than in the East or Northwest. Greater development efforts should be made in the less developed areas outside the Greater Colombo. However, intensive investment, especially in the industrial sector, must still be made in the Greater Colombo

region, where the industrial infrastructure has been built up to a relatively substantial degree. Parallel development must be pursued, combining relatively large-scale industrial development, centered on Colombo, with accelerated development in the rural provinces.

2.5 Limited employment opportunities at home and emigration for jobs

Sri Lanka's unemployment rate in 1986/1987 was as high as 15.5 %, and 23.6 % among women. Unemployment of people with higher education is a serious problem. In rural areas constituting 70% of the total population, suitable job opportunities for the highly educated are scarce, and even in Colombo and other cities, industry is not yet developed to the point where it can accommodate a sufficient number. Nor is the situation satisfactory even for those who find jobs. Many women with a higher education, for example, can only find simple manual jobs at low wages.

Many Sri Lankans, therefore, go overseas to look for high-paying jobs. Hundreds of thousands are said to be working in the Middle East and elsewhere. The money they remit home has become one of the major sources of foreign currency, but the troubles and privations they suffer overseas are also increasingly apparent. If stable domestic employment were guaranteed, they would not have to go overseas to find jobs. It is, therefore, strongly hoped that greater job opportunities will become available at home. The problem

is compounded by the fact that many expatriates are not unskilled workers but skilled workers and professionals. Despite high domestic unemployment, medium and high level technicians and engineers are in short supply in Sri Lanka.

The unemployment problem is worsening further with the return of a large number of workers from the Middle East, following the eruption of the Gulf Crisis in August 1990, adding more to the already high unemployment necessitated by the structural adjustment program in the public sector. On the other hand, it is suspected that a large proportion of the over 70,000 returnees from the Middle East will go back there in pursuit of better jobs emerging during the period of reconstruction and stabilization of the war-torn area. In this context, it is quite urgent that much greater job opportunities be created in the country. Besides, some assistance from the international community may be necessary for those Sri Lankans returning to the Middle East.

In light of the present situation, the government of Sri Lanka is trying to support promotion of mining, manufacturing and trade in order to create jobs while also seeking to launch and promote rural industries in order to create jobs in rural areas. And guaranteeing productive employment is also a step toward alleviating poverty.

3. Priorities in Japan's strategy for development assistance

Although some of the social indicators of Sri Lanka have already reached the level of middle income countries, it is important to enlarge development assistance to Sri Lanka in the immediate future in support of its efforts to achieve economic growth through integrated development of agriculture and industry and to alleviate poverty, keeping in mind the need to protect the environment and rectify regional and social inequalities. Japan should assist Sri Lanka to achieve reasonable economic growth in the short run and well-balanced and sustainable development in the long run.

3.1 Agricultural development

According to Sri Lanka's official statistics, agriculture accounted for 23% of the country's GDP in 1989, absorbed 45% of the workforce in 1988, and produced 39% of its exports in 1989. Although agriculture's importance has declined in recent years, it is still Sri Lanka's main industry. Seventy percent of the population lives in rural communities, and the majority is employed in agriculture or related industries. Traditionally, tea, rubber, and coconuts have been Sri Lanka's main exports, and rice and pulse are the main products for domestic consumption, in which Sri Lanka is self-sufficient. Aging of plantation trees and drought have caused a drop in production in the former category, while for rice and

pulse, production volumes and crop areas are increasing. The public investment program (1990-1994) is aimed at reaching a higher degree of self-reliance in basic food commodities (rice, fish, sugar, pulse, milk), at increasing the productivity of the arbor crop sector so as to expand export earnings, at promoting diversification, encouraging the establishment of agro-industries and increasing incomes and employment opportunities in rural areas. These goals are virtually identical to the 1984 agriculture-food-nutrition strategy, which overturned previous agricultural policies that were solely focused on increasing rice production. Meanwhile, under the structural adjustment program, policies are being drawn up and implemented in specific sectors to improve agricultural productivity, to diversify crops, and to strengthen export-oriented production.

Japan's role is to provide support for agricultural policies of the government of Sri Lanka, with emphasis on the following ten items on the agricultural development agenda.

- 1) Higher rates and greater stability of self-sufficiency in staple food production and revitalization of plantation agriculture through privatization and other measures ;
- 2) Crop diversification through the introduction of field crops and introduction of livestock raising ;
- 3) Productivity improvement in existing agricultural production and development of new products for export ;
- 4) Rehabilitation of existing irrigation facilities, improved management of the irrigation system and improvement in agricultural production infrastructures including

land tenancy ;

- 5) Promotion and diversification of agro-industry and creation of rural job opportunities ;
- 6) Reduction of reliance on human and animal labor in agriculture and assistance in spreading suitable mechanization in farming ;
- 7) Institutional improvement, expansion, and merger of organizations engaged in farmers' education and training, and in the extension of agricultural technology including experimental research organizations ;
- 8) Erosion and flood control and securing firewood resource by afforestation ;
- 9) Promoting of inland and coastal fishing ;
- 10) Improvement in marketing arrangements for farm products.

3.2 Development of mining and manufacturing

Industrial development in the Greater Colombo region has played a pioneering role in Sri Lanka's industrialization because the economic infrastructure there has been developed more highly than in other regions. Its pioneering role should be further strengthened in the future. To support industrial development in the region, Japan should extend assistance with technical cooperation and financing through two-step loans to promote those export industries with comparative advantage in international markets. In the medium- and long-term, however, promotion of industrialization in underdeveloped districts is indispensable for achieving balanced

development. In the future, therefore, development of regional bases should be included in the agenda, aiming at promoting industrialization in underdeveloped regions.

Industrialization must be supported by building an industrial infrastructure to promote the realization of timely entrepreneurial opportunities according to a portfolio for development of those industries with comparative advantage using the country's abundant, quality work force. Sri Lanka is situated at the southern tip of the Indian subcontinent near the Indian Ocean and the Arabian Sea, at a crucial point in maritime traffic. Taking advantage of its close trade links with neighboring countries, Japan should assist in the development of sound and highly competitive private-sector industries and support selective import substitution policies and the restructuring of inefficient public enterprises, including obsolete experimental and training institutions. In particular, the textile and apparel industry (the present export leader), the accessory processing industry, which gives added value to gem stones and other mineral resources, and the agricultural product industry, which processes tea, coconuts, and rubber, all labor-intensive, should be supported to improve productivity and maintain competitiveness. It is also important to promote various types of assembly and software industries to absorb Sri Lanka's high quality labor, and the metals and plastic industries that will promote exports and contribute to foreign currency earnings. Assistance in building, upgrading and improving industrial infrastructures is also needed to support the growth of the country's manufacturing industry.

In so doing, much can be learnt in this area from the Japanese experience in developing production linkages between large- and small-scale firms, the latter acting as feeder industries for the former. Lessons can also be learnt from the experiences of other aid organizations in providing assistance to private sector enterprises.

In the area of mining, studies should be made of the development of mining of ilmenite and other mineral resources.

To successfully guide Sri Lanka toward the development of a mining and manufacturing industry with comparative advantage in the dynamic global economy, its leaders must exert every possible means to promote a revolution in the national consciousness, counting of course on the spontaneous efforts of the Sri Lankan people. Policy and administrative support for efficient industrial development in the long run are also much needed.

3.3 Development of infrastructures

3.3.1 Economic infrastructures

Development of economic infrastructures, such as the transportation network, will both support activity by Sri Lanka's industry and agriculture and strengthen the linkages among economic sectors and the economic, political, and social ties among different regions. That is why they are indispensable to promoting economic and social development

on a nation wide scale. In order to sustain industrial development, it is especially important to build and improve the energy, transport and telecommunications infrastructures that will provide the foundation for industrialization (namely, those industrial infrastructures around the Colombo region and at regional centers) and to improve the road and telecommunications networks connecting major cities.

Since considerable progress has been made with the Sri Lanka's national road network, in the short-term, emphasis should be placed on repair and improvement of existing roads. In the long-term, however, expansion of the road network should be considered to promote regional development. For effective use of existing roads, for example, improvements in road construction standards and the construction of model roads with Japanese assistance should be considered. Due to the nature of the terrain in Sri Lanka, railroads would have scant advantages over truck transportation. Efforts in this area should be focused on repair of existing railroads and on improvements in operating methods. Cooperation is also needed for privatization and improvement of efficiency in public transportation, now being promoted by the Sri Lankan government.

The port of Colombo, Sri Lanka's largest trading port and a vital link in maritime transport between Japan and the Middle East, is approaching its capacity. Improvement of the port of Colombo should be continued in the future, while the Galle (including its free trade zone) and other

ports are also improved.

3.3.2 Social infrastructures

Improvement of water supply and sewage systems is vital for improving the living environment and controlling infectious diseases. The obsolescence of water supply systems is serious, even in Colombo, and repairs and improvements are urgent. Sewage treatment lags even further behind, and even in the capital, Colombo, only about 6% is treated; in other regions, treatment is virtually nonexistent. In this area, assistance is indispensable for deliberate construction of new facilities and improvement of existing facilities, as well as for more efficient maintenance and management of these facilities. Finally, to prevent floods and improve the living environment, cooperation is needed for drainage systems in the Colombo region.

3.4 Poverty alleviation

Sri Lanka is endowed with fairly well-developed human resources as compared to other South Asian countries, but about 27% of the population is considered poor and the majority of the poor live in rural villages. About 70% of the population lives in rural villages, and the majority of them are either unemployed or underemployed. One of the main reasons for this is that the abundant and high quality human resources cultivated through investment in social developments, emphasized since independence, have

not been tied to economic development for political and policy reasons. On the contrary, in recent years unemployed youth have formed a stratum of the population fomenting social unrest. Up to 1977, political instability stood in the way of consistent economic policies. And since the introduction of open-economy policies in 1977, income disparities have widened, despite increased real incomes and job opportunities. Presently, in addition to the ethnic conflict, unemployment, now over 15%, is worsening and the poverty-stricken segment of the population has grown to about 27% of the total.

Poverty alleviation necessarily requires a two-pronged approach. One approach is through macro-economic policy contributing to sustained growth and poverty alleviation, while another is through various specific measures targeted at poverty alleviation. In formulating poverty alleviation measures, attention should be paid to effective use of human resources, particularly in rural areas, through a comprehensive rural development program which integrates agricultural with rural industrial development. Training of rural women and of youth to acquire technology and upgrade their existing skills is especially important. The poverty alleviation agenda also includes comprehensive development assistance for rural districts where poverty is especially severe, support for the government's rehabilitation measures for areas ravaged by years of ethnic conflict and for urban slum conditions.

Lately, the Sri Lankan government has formulated a program of poverty alleviation called Janasaviya. Although

it has been scaled down from the original proposal, it is already being implemented in some districts. The program appears to take into account the adverse effects of the structural adjustment program on the people's living conditions. Japan should closely follow its progress and find ways to support it, if it is confirmed to be demand- and investment-oriented, and to be effective in promoting the self-reliance of the poor and their participation in production activities, and to be targeted to the truly needy recipients.

3.5 Human resources development

Human resources development is indispensable for carrying social and economic development forward. Although steady, serious efforts have been made in this area over a long period and Sri Lanka's literacy and school enrollment rates have reached the level of the middle income countries, problems do exist. Aid continues to be vital to improve elementary and lower secondary school facilities in the countryside, where development lags behind, and their educational curricula. In addition, in institutions of higher science and technical education (universities, technical colleges and so on), quantitative and qualitative improvements (through teacher training and retraining, curriculum improvement, and correction of the male-female ratio) are necessary to fill the chronic shortage of middle-level management personnel and leaders in the future.

In this area, greater attention should be paid to the

expansion of aid for training in the third countries in ways that deepen relationships with India, Singapore, Thailand, and other neighboring countries, to the expansion of foreign student programs, and to the formulation of programs that assist former students in their activities after they return from study abroad. In addition, it is worth investigating support for translation of foreign reference materials written in foreign languages, for mobilizing the talents of overseas study returnees, and for improving the quality of technical literature in local languages, which is scarce in Sri Lanka.

3.6 Improvement of health and medical care systems

Sri Lanka's health indicators are relatively good compared to neighboring countries, but morbidity and mortality rates both vary greatly among regions. And although death rates from certain diseases have fallen, the morbidities are still high and outbreaks of infectious diseases are also high. Besides, other health problems have arisen, including the resurgence of malaria -- which had been eradicated in the 1940's but now recurs once every ten years and accounted for the highest rate of morbidity of all diseases in 1987 -- and agricultural pesticide poisoning, the sixth most important cause of death in 1989.

Japan has already contributed to health care improvement in Sri Lanka in a wide variety of areas, including the construction of the Sri Jayawardenapura General Hospital in Colombo, but it should make yet greater efforts to cooperate by assisting

in the improvement of Sri Lanka's medical care systems, for the elimination of interregional gaps among medical institutions and more effective control of infectious diseases, as well as for popularization of preventive medicine. Possible areas of cooperation include improvement of the facilities and equipment (including such infrastructure as water supply systems and sanitary treatment facilities) at regional hospitals which are central to community health and medical care, the training of medical technicians and nurses, and improvement of the supply systems for drugs and reagents and of equipment and facility maintenance and management systems. Promotion of primary health care is vital for controlling infectious diseases, and this requires the upgrading of health facilities and the promotion of health education. In the medium- and long-term, cooperation is also required to improve water supply and sewage systems, an area where Sri Lanka still lags behind. In addition, problems of health and sanitation are involved in development: there is a risk, for example, that environmental pollution (including contamination to foods) will occur and that labor conditions will deteriorate as a result of industrial development. Japan should extend assistance in this area in coordination with its support to other industrial sectors.

Thus far, UNICEF, WHO, and other organizations have cooperated in various ways in the domains of health and medical care in Sri Lanka; more effective cooperation is possible through coordination and ties with these organizations.

3.7 Promotion of macro-economic structural adjustment and restructuring of industries and trade.

The creation of policy-making and administrative systems to effect a constant balance and harmony between macro-economic national development planning and micro-economic project action plans is another extremely important area of Sri Lanka's national development that requires outside support. Making development management organizations and systems better, more efficient, and stronger as a whole is an important factor determining the success of Sri Lanka's future social and economic development. Japan's putting its experience at the service of Sri Lanka will be extremely beneficial and strengthen friendship between the two countries. Therefore mutual understanding between both countries must be increased so that this type of intellectual support will grow.

4. Requirements for Japan's development assistance to Sri Lanka

4.1 Regional differences and local people's needs and aspirations

While it is a small island country, Sri Lanka has a highly varied natural environment consisting of both dry and wet zones and highland and lowland. It also has a colorful history, with disparate ethnical and cultural elements existing on the island. Likewise, stages of economic development also vary among regions; a large gap separates the most affluent region, surrounding Colombo on the west coast, and the rest of Sri Lanka. Thus in planning and implementing its aid to Sri Lanka, Japan should seek out, select, and implement projects that are more closely suited to local needs, taking local characteristics into account. In addition, since ethnic conflict has left widespread ruin in the Northern and Eastern provinces; a different approach from other regions must be adopted in planning aid to this region.

Since poverty alleviation projects directly affect the lives of local people and communities, such projects must be so prepared as to reflect the needs of the local people accurately and to promote their participation in project planning. To provide effective support on the basis of local conditions, measures should be taken to better understand the local realities, utilize local expertise, and cooperate with local non-governmental organizations.

4.2 Linkages among different sectors

Agriculture is Sri Lanka's largest industry, and most of the rural population is employed in agriculture or industries related to it; for Sri Lanka to achieve sound industrialization in the future, the development of agriculture must be considered from the national economic standpoint, including modernization of agriculture to support industrialization.

Farming in Sri Lanka relies on human and animal muscle power, which is low in operating efficiency ; when harvest time comes, inevitably, large numbers of farm hands are needed, and it is important to bear this fact in mind. In other words, as industrial growth increasingly creates jobs and absorbs the workforce in rural areas, the resulting temporary shortage of manpower will make it very difficult to plant and harvest crops in time unless measures are simultaneously taken to modernize and appropriately mechanize farming methods during harvest seasons ; this manpower shortage could reduce harvests quantitatively and qualitatively, while droughts and abnormal weather could also be major destabilizing influences on crop harvests. This could leave the entire nation's rural areas underdeveloped indefinitely. It is therefore of supreme importance for Sri Lanka's industrialization that measures to modernize agriculture accompany industrial policy. In terms also of Japan's aid, the modernization of agriculture is indispensable both to the increase of agricultural productivity and to the development of manufacturing and other industries. Japan's development assistance should take fully into account

the balance and linkages between the agriculture and other sectors of the national economy.

In addition, within the industrial sector, backward and forward linkages between different subsectors must be promoted.

4.3 Role of women

In Sri Lanka, there is no apparent educational gap between men and women. Women's literacy rate is as high as men's, and many women have received higher education. Rates of infant mortality and maternal mortality before and during childbirth are both relatively low, and men and women have equal property rights and suffrage. Sri Lanka's women cannot therefore be said to be in the worst situation as compared to conditions in the rest of South Asia. There are problems, however: worsening poverty affecting women who head households in rural areas, and unemployment rate that is almost twice as high as men's, employment of highly educated women in menial jobs, male-female wage differentials, and barriers to job promotion. For Japan's assistance, it is important to pay more attention, from women's point of view, to the positive role of women, especially in agriculture, so as to prevent a worsening of their present situation, and open the way for them to assume management positions.

4.4 Environmentally sustainable development

Currently environmental problems have begun to surface

in Sri Lanka, such as the destruction of forests caused by firewood collection for fuel, disorderly settlement and development of farmland with the growth of the poor population. It is also feared that development of industry along the coast will pollute the ocean. Coastal erosion in the southern and southwestern regions, where foreign aid is already being initiated, is reported to cause the disappearance from one to seven meters of coastal land annually, and the problem is growing more serious. The problem is said to have arisen in the 19th century and its causes to be elevation of sea level, high waves during the monsoon season, disruption of the ecosystem resulting from exploitation and settlement of the coastal areas, and especially destruction of the mangroves that had built up a natural breakwater in the past. Coastal erosion is also occurring on the Jaffna peninsula. It is vital for Japan to support Sri Lanka's sustainable development by cooperating in the formulation and implementation of development plans that take the environment more into account and also by cooperating actively for stronger and better systems and technology for environmental protection in Sri Lanka.

4.5 Improved coordination with other bilateral aid agencies, the United Nations' organizations, and international financial institutions

Other bilateral aid agencies, the United Nations' organizations, and international financial institutions are all assisting Sri Lanka in its economic and social development on the basis

of their own strategies and expertise. As mentioned several times previously, Sri Lanka has begun, under the aegis of IMF and the World Bank, a structural adjustment program whose success or failure will have an extremely important influence on Sri Lanka's future development. In Japan's future assistance, it is important to support Sri Lanka's development through better communication and coordination with aid agencies of West Germany, the United States, and other advanced countries; the World Bank, the Asian Development Bank, and other international financial institutions; and the U.N. Development Program, the Food and Agriculture Organization, UNICEF, and other organizations of the United Nations, to complement their respective strengths while avoiding competition or duplication. Coordination of Japan's aid with the structural adjustment program being carried out with the support of the World Bank and IMF is also essential for its successful completion. Adequate discussions must be held with the government of Sri Lanka and the World Bank and IMF to study implementation of structural adjustment measures better suited to Sri Lanka.

4.6 Implementation of aid from a regional perspective

Because Sri Lanka is well-endowed with human resources and a good geographical location in comparison with other countries in Southwest Asia, it has extensive growth potential and it is being watched in anticipation that it will follow the steps of the NIES and ASEAN. Its domestic market, however, is small and its industrialization policy focuses

on promoting exports. In this context, Sri Lanka's future development could not be accomplished solely on its own; it must rely heavily on relationships with India and other Southwest Asian countries, ASEAN, the Middle East, the NIES, Japan and other advanced nations. In view of the continuing difficulty India faces in opening its vast market to foreign exports, including those from Sri Lanka, and in view of the prospect of rapidly expanding economies in East Asia, it may be proper to encourage Sri Lanka to look more seriously at the possible benefits accruing from mutual cooperation with its like-minded neighboring countries.

On the other hand, Sri Lanka has many points in common geographically and in terms of stage of economic development with other countries in Southwest Asia, and its export industries are likely to enter into serious competition in many areas. Thus Japan's aid should be implemented from a wide perspective, encompassing the entire region, so as to promote mutual cooperation and development by these countries. Extension of lateral support to cooperation among Southwest Asian countries, regional planning and implementation of aid through the SAARC and subregional aid planning and implementation for Sri Lanka and a few other countries should be envisaged in the future.

5. Recommendations concerning Japan's aid systems

5.1 Improvement of machinery for information collection and analysis

Though it is not easy to obtain what does not figure in statistics--for example, on social norms and values that differ from Japan's, on economic conditions, and on the feelings of ordinary people--accurate knowledge of local people's needs and aspirations should be collected and analyzed so that aid projects will be accepted by local communities.

Sri Lanka is a part of the Southwest Asian cultural sphere, but its people have a Southeast Asian mentality stressing harmony with the people they deal with. At the aid project request stage, rather than make decisions on actual material commitment capabilities and on social constraints, they tend to strive to implement programs within a framework aligned with the approach of the donor country. As a result, social and institutional problems often surface after the project is underway.

Thus far, at a stage prior to project implementation, in addition to requests for documents from the Sri Lankan government, efforts have been made, via overseas offices and other sources, to collect and analyze local and domestic information, etc., but these efforts have been focused on technical data needed for the study and formulation of specific projects, and after being collected separately, they

are left undigested, without being put to fuller and wider use. Further information collection and analysis and sharing are necessary, especially with regard to social factors essential to the success of aid projects; more detailed studies should be made on the adequacy of project plans based on the basic factors recognized from such information. Concerning some problems that come to light during project implementation, the features and methods of solution should be fed back to proposals under study presently or in the future.

As organizational steps towards achieving these goals, improvements are called for in sector studies and in methods of data storage for development survey, in programmes to collect and analyze information such as JICA's country information files, and in monitoring systems to cover all of Japan's economic cooperation with Sri Lanka. The steady accumulation of surveys and research on Sri Lanka must be carried out as part of this effort by continuing and strengthening the countrywise and sectorwise approach, mobilizing the talents of outside experts (including non-Japanese in some cases). And with the cooperation of local research institutions, revision of the situation analysis presented in this country study should also be pursued in the future.

5.2 Policy dialogues for long-term and comprehensive planning of assistance

Since 1977, the growing scale of Japanese, American, and other foreign aid to Sri Lanka has come to exert a

considerable influence on the Sri Lankan government's policies. Japan's aid in 1988 was equivalent to 9.5% of the Sri Lankan government's outlays that year.

From about 1982, Japan has often been among the leading aid donors to Sri Lanka and has attracted a great deal of attention from its government as well as other aid organizations, and inquires regarding the orientation of Japan's aid are increasingly being made. The areas covered by fostering of agriculture and industry, education, medicine, and welfare, and the possibility of tie-ups between projects, and cooperation with other aid organizations are being explored.

Under the circumstances, Japan must position different aid projects clearly and reliably within the framework of long-term, comprehensive cooperation planning. It is recommended that advisers be sent on long-term assignments to coordinate aid for this goal. Though the Japanese budget system makes it difficult for Japan to make commitments over a span of several fiscal years, within the limits of the possible, it is necessary and meaningful to formulate a comprehensive picture of Japan's aid from a medium- and long-term perspective through continuous policy dialogues, not only with the government of Sri Lanka, but also with other aid organizations. People involved in aid projects would welcome stagewise, year-by-year indications of aid guidelines and schedules, taking into account relevant regional peculiarities, sectors, and the scale of projects. This should not be solely a Japanese-side plan but should be elaborated by consensus building through

policy dialogues.

5.3 Localization of assistance programs

There has been a repeated call to make greater use of local initiatives and capabilities in Japan's aid planning, programming and implementation. Out of respect for the pride and identity of the people of Sri Lanka and acknowledgment of the differences between Japan and Sri Lanka, the Sri Lankan content of aid projects should be increased. The important points are three: i) how Sri Lankan elements are to be incorporated into aid project implementation guidelines, ii) how the Sri Lanka side can be involved in the planning of individual projects and iii) how these elements can be assimilated and coherent projects can be implemented.

It would be mutually beneficial to enlist the cooperation not only of government agencies but also of competent local consultants, experts, cooperatives, and non-governmental organizations. It is also worth studying the use of existing know-how locally, such as the application of building standards or other standards in common use in Sri Lanka. The views of the Sri Lanka side should be solicited in many cases regarding local procurement of materials and equipment, because this would facilitate maintenance and would probably lower costs.

Care must also be taken not to thwart the development of local technologies through introduction of large-scale

aid projects and the latest foreign technology. To prevent this, the suitability of aid requests must be examined, taking into account wherever possible the opinions of both the intended local beneficiaries and those likely to be affected directly or indirectly by the project, as well as third parties.

5.4 Enhanced capacity of overseas offices

In connection with the expansion of Japan's aid, qualitative improvement is one of the most important tasks for Japan's major aid organizations, JICA and the Overseas Economic Cooperation Fund (OECF). Japan's aid to Sri Lanka currently exceeds ¥20 billion a year. The selection, planning, and various administrative procedures connected with projects involve an estimated 100 officials in the Ministry of Foreign Affairs, related ministries and agencies, and aid organizations, almost all of whom are not specialized in aid projects for Sri Lanka but are also in charge of several projects in other countries. Therefore, those involved for an extended period in Sri Lanka aid projects number only a few officials in the Japanese embassy in Sri Lanka and staffs in aid organization offices. They are expected to play a major role in Japan's aid system. However, the existing structure is woefully insufficient for formulating Japan's aid program for Sri Lanka and for dealing swiftly with problems arising in the process of aid implementation.

In the future, overseas offices should become actively involved, based on Sri Lanka realities, in surveys into the

background of aid requests, promotion of mutual ties with other aid projects of various types, studies of the need for local cost support, determination of the scope of localization versus multinationalization of aid projects, monitoring of projects, determination of evaluation criteria, selection of projects for post-implementation attention, etc. It is also important to establish support mechanisms from a perspective closer to field conditions so as to provide locally active experts and cooperation volunteers more adequate technical information and material support which enables them to carry out more effective guidance. Studies should be made with these objectives in mind to enlarge overseas offices decision-making authority and to improve aid project efficiency. At the same time, local offices' staffs should also be increased.

In Japanese organizations, however, authority tends to be concentrated in the headquarters, and it is doubtful that greater authority would ever be delegated to overseas offices. The U.S. approach is to let headquarters decide strategy and local representatives decide tactics and implementation methods. USAID has 18 American staff members in Sri Lanka and employs 20 Sri Lanka experts, taking a far more decentralized arrangement.

5.5 Support for local costs

In the implementation of aid projects, Sri Lanka may lack the funds to cover the share of costs that it is expected to bear (called "local costs," mainly administrative and

operating cost). This jeopardizes the progress of projects. For projects of great urgency, the Japanese side is forced to judge what proportion of local costs can be paid by Sri Lanka and to supply the remainder so that the aid project can be completed without delay. However, it should be prudent to support for local costs because although payment by Japan is effective in improving project efficiency, it may also decrease Sri Lanka's willingness to achieve independent development. While adhering to the principle that Japan will not bear expenses, that will have to be met after the completion of a project, such as those for personnel, lighting, and heating, standards for local cost support should be formulated, taking Sri Lanka's situation into account.

China, for example, when it built the Bandaranaike International Conference Hall, set up a fund to cover its maintenance ; German NGOs carry out subsidy programs where all training facility operating costs are paid by the donor the first year and each year Sri Lanka's share increases by 10 %, until finally, all the facilities are independently operated by Sri Lanka.

5.6 Diversification of evaluation methods

Conclusive evaluation of aid projects is difficult because a long time is required before a project's impact appears visible, and because changes are often made in the original plan due to insufficient local funds or lack of other resources. Already, however, a number of lessons which should be learnt

have come from evaluations by the Ministry of Foreign Affairs, by JICA and by OECF. Further evaluations and analyses such as impact assessments are needed for improving project planning and implementation in the future.

Evaluations from diversified viewpoints are made by third parties, including non-Japanese. The range of participants is to be further broadened for effective project evaluations. Various types of evaluation such as joint evaluations with other aid agencies, international organizations and aid recipients, should also be promoted. Moreover, as Japan accumulates practical experiences with project and program evaluation, it could provide Sri Lanka technical assistance for training in evaluation methodology, techniques and systems.

5.7 Flexibility for aid implementation period

Quantity and quality of aid are the main criteria in the planning of aid projects, but careful attention ought also to be paid to the duration of aid implementation. Guidelines for the length of aid programs are decided according to the form of aid (technical cooperation, grant aid, loan assistance). Since the time required for aid implementation differs according to the nature of the project, flexibility should be introduced for its success.

Progress sometimes slows down after handing over the project to the Sri Lankan side, and additional cooperation may be required. Post-implementation follow-up is carried

out in cases where, after the original project schedule is over, the Sri Lankan side maintains and operates the project alone for a certain time, but problems, such as technical difficulties, will occur that cannot be solved by the Sri Lankan side alone. The object of post-implementation follow-up measures should not be to prop up a project in financial difficulties but to explore the need for further cooperation for effective and expanded development. First, establishment of the initial objective and schedule of the project is needed, but in cases where post-implementation follow-up measures are necessary, prompt responses are called for. A new type of project implementation should be studied: that is, total control of project operation is handed over to the recipient for a certain period of time after initial cooperation, and after analyzing the results of the project, the second phase of cooperation is implemented.

Moreover, such projects as to respond to new needs identified through follow-up of existing projects during its implementation stage should also be studied.

It would be effective to relax restrictions imposed by the single-year budget system by combining grant aid projects, which must be completed within a single fiscal year, with technical cooperation and loan assistance projects, whose implementation can be carried over. However, with packages combining technical cooperation and loan assistance with grant aid, it is not always best to have every segment carried out simultaneously. A more flexible approach is required

in order to determine the most effective order and timing for carrying out different facets in a medium-term time series. For example, it is not always best to construct buildings first : in projects where technical cooperation has succeeded and further facilities are required, building construction through grant aid can be regarded as an extension of cooperation. Therefore ties between technical cooperation and financial aid should be sought as much as possible with this point in mind.

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